

ROLLER

Weekend FT

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First catch your lobster
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DNA research
Who owns your genes?
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FINANCIAL TIMES

Europe's Business Newspaper WEEKEND OCTOBER 8/OCTOBER 9 1994

Metallgesellschaft reduces net debt by two-thirds

German metals and engineering group Metallgesellschaft has reduced its net debt by two thirds to DM1.2bn, (\$770m) chairman Ralf Neukirch said. The assets sale instituted when he took control last December had generated DM4.2bn, and 90 subsidiaries had been disposed of or deconsolidated.



soon raise its key interest rates again. US indicators keep everyone guessing, Page 4; Bankers prepare to scrap the grouse shoot, Page 6; Good news is bad news for shares, Page 9; London stocks, Page 15; World stocks, Page 21; Lex, Page 24; Markets, Weekend 11

Police raid Fininvest offices: Police raided the Milan offices of Fininvest, business empire of Italian prime minister Silvio Berlusconi, damping hopes that his right-wing coalition's confrontation with the judiciary might be contained. Page 24; Man in the news, Page 8

Euro Disney to promote French films: French-based theme park operator Euro Disney is to set up a subsidiary of Miramax, owned by Walt Disney, to promote French films in the US. Page 11

Japan backs outsider as trade chief: Japan said it would back South Korean trade minister Kim Chul-su to head the new World Trade Organisation against front-runners Carlos Salinas, former president of Mexico, and Renato Ruggiero, a former Italian trade minister. Page 24

Cult victims 'probably murdered': Police investigating cult-linked deaths said the bodies of a Swiss man, a British-born woman and a baby found in a burnt out house in Quebec were probably murdered. In Switzerland, warrants were issued for cult leader Luc Jouret and an associate.

Japan's trade surplus falls: Japan reported a 15.7 per cent fall in its current account surplus in the year to August. Page 3

Rover workers get 10% pay deal: Rover Group signalled an upward turn in British pay deals with a two-year award of about 10 per cent for most of the carmaker's 33,000 employees. Page 24

Spain may press for Iberia funding: Spain is likely to seek approval from the European Commission to provide further subsidies to Iberia, its financially crippled airline, which is expected to lose Ptas4bn (\$34m) this year. Page 2

China defends nuclear test: China ignored appeals for a moratorium on nuclear testing and defended its second underground test in four months. Page 3

Hollinger to raise Telegraph stakes: Shares in The Telegraph jumped 20p to 330p in London after Hollinger, the Canadian publishing company controlled by Conrad Black, said it wanted to increase its 57 per cent stake in the UK newspaper group. Page 11

Interest rate rise hits house sales: The UK housing market has been hit by last month's half percentage point rise in interest rates, according to a survey of more than 200 estate agents. Page 5

The FT influence

The Financial Times has been named as the world's most influential publication in an international survey of central bankers, finance ministry officials and financial executives. Out of 300 financial policymakers surveyed in 30 countries by the magazine The International Economy, 60 per cent of those who replied cited the FT.

The survey also named Sir Samuel Brittan, the FT's chief economic commentator, as the world's most influential economic journalist, with 32 per cent of respondents citing him. Martin Wolf, Peter Norman and David Marsh, all of the FT, were respectively joint second, third and joint fifth most influential.

Companies in this issue

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| Andrews Sykes | 10 | Huailun | 3 |
| Argyl | 10 | ITT | 11 |
| BSKYB | 10 | Iberia | 2 |
| BZW Commodities Ltd | 10 | Kidder Peabody | 9 |
| Bluebird Toys | 10 | L&G Ventures | 10 |
| Calluna | 10 | London Electricity | 10 |
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End of the road for the man from the Pru

By Ralph Atkins

The "man from the Pru", foot-slogging pavements of Britain's industrial heartlands collecting monthly cash payments, has yet to hang up his hat for good. But he will not be taking new business from next year.

Prudential, the UK's largest life insurer, closed a chapter in commercial history yesterday by announcing that from January 1 it will stop selling the cash collection life insurance and savings products with which it is almost synonymous.

Mr Jim Sutcliffe, director of the group's home service division, said existing holders of such "industrial branch" policies - so

Direct debits to replace cash on the doorstep

called because they were designed for the expanding industrial classes of the nineteenth century - would still get their monthly visits.

But for others, direct-debit bank mandate and annual or half-yearly financial health checks will replace the smart chap from the Pru, who was always polite and unlike slicker financial advisers from the City.

"It is an emotional moment when you close the book," said Mr Sutcliffe.

The Prudential said its decision not only made commercial sense

- in the first half of 1994 industrial branch business accounted for less than 2 per cent of the Pru's total UK sales - but was good for its clients. Collecting in person amounts that averaged just £8 every four weeks was expensive, eating into the return that investors eventually receive.

More than 90 per cent of its cash collection customers have a bank account, the Prudential estimates.

Research suggests that contact every six months is sufficient to maintain customer satisfaction. The Prudential said there would

be no redundancies among its 8,000-strong sales and collection force, which will concentrate on selling other financial products.

Under 1930s legislation, agencies selling industrial branch policies must visit at least every two months and initial in a premium book the amount paid - though these rules are under review by the government.

From next year life insurance companies will have to give more information on costs and charges, a move expected to make customers more price sensitive. But other companies offer-

ing cash collection argued yesterday that industrial branch business still made economic sense.

Mr Martin Fox, marketing manager of Pearl Assurance, said his company believed in "regular contact, regularly looking after people and we are opposed to the idea of selling people something and then walking away from them."

Liverpool Victoria friendly society, which last year received 58 per cent of its premium income from industrial branch business, said it was "committed to providing the type of business the ordinary working men and women want".

Editorial Comment, Page 8



For Home Service Insurance
ASK THE MAN FROM THE PRUDENTIAL
Satisfied customers: how the Pru used to advertise on posters

Tory right urges tax cuts to counter Blair's appeal

By Kevin Brown and David Owen

Mr John Major was last night facing a strong warning on taxes from the Tory right, as Labour's successful Blackpool conference closed with an endorsement of Mr Tony Blair's leadership from Mr John Prescott, its traditionalist deputy.

With many Tories rattled by the confidence of Mr Blair's performance, the Thatcherite Conservative Way Forward pressure group was expected to urge the prime minister to make tax cuts an urgent priority.

The group was also expected to use tomorrow's issue of its Forward magazine to urge Mr Major to stress in his speech to his party's conference in Bournemouth on Friday that a Conservative government would never join a European single currency.

Right-wingers see these steps as vital if the party is to establish "clear blue water" between itself and Labour. They will also call for a renewed offensive on law and order, an issue on which they feel Labour has successfully eroded the Tories' advantage.

In Blackpool, Mr Prescott tried to bridge divisions over the future of Labour's commitment to widespread nationalisation.

In a forceful speech designed to undermine Conservative efforts to ride to power on the slogan that Mr Blair was "a leader with the courage to lead".

As the conference closed with



Labour leader Tony Blair (left) applauds deputy John Prescott for his end-of-conference speech

jazz bands and jiving, as well as a chorus of Red Flag, Mr Prescott said Labour had "learned its lessons", and promised to consult "every region of the land" to build a consensus on modernising the party's aims.

Senior officials said the regional tour would help ease the pain of transition from the 76-year-old Clause Four commit-

ment to public ownership to the more limited support for public services favoured by Mr Blair.

But Mr Blair, who heralded the end of the nationalisation commitment on Tuesday, issued a blunt warning to left-wingers not to exploit the leadership's narrow defeat on the issue in a debate two days later.

He said two freshly elected

left-wing members of the party's ruling national executive committee would be "very foolish" if they interpreted their election as a signal of a swing to the left.

Mr Blair's determination to

Continued on Page 24
Conference reports, Page 7
Blair sets Tory agenda, Page 8
Lex, Page 24

Clinton warning to Iraq as troops move near Kuwait

By Mark Nicholson in Cairo and George Graham in Washington

President Bill Clinton warned Iraq yesterday not to be "misled into repeating the mistakes of the past" after Baghdad moved troops towards its border with Kuwait, from which Iraqi troops were expelled by a US-led force after it invaded in 1990.

The US was "taking the necessary steps", in response to the Iraqi action, Mr Clinton said.

One mechanised division and one armoured division, possibly including Iraq's Republican Guards, were said by diplomats in Kuwait to be heading towards the border. Iraqi divisions are smaller than in many Western armies, where they often comprise about 12,000 troops, the diplomats said.

Mr William Perry, the US defence secretary, said the troop movements were "not routine and they're not typical of what we've seen in the past, and therefore they do cause us some concern".

Diplomats said that Iraq had made numerous movements of forces since the Gulf war and that these had been correctly interpreted at the time as political posturing. However, Kuwait yesterday called an emergency cabinet meeting and called up some army reservists "in response to the call of duty".

British and US jets are based at Dhahran, Saudi Arabia, from

where they routinely fly reconnaissance missions to enforce a "no-fly" zone in southern Iraq. Britain said yesterday it was sending a naval frigate to the waters off Kuwait in response to the troop movements.

Evidence of the troop movements emerged as Iraq sharpened its rhetoric against the UN embargo on Iraqi oil exports, imposed after its invasion of Kuwait, warning that it would take unspecified "measures" against its "enemies" unless the Security Council "immediately" eased the ban.

The Security Council is next week to consider a report from Mr Rolf Ekeus, the UN special envoy, on the readiness of systems for the long-term monitoring of Iraq's weapons programmes - a critical condition for an eventual easing of sanctions.

Mr Ekeus is expected to declare the monitoring systems virtually in place. France, Russia and China have said they believe Iraq should next be given a "probationary period" of six months for monitoring, after which the Security Council should discuss lifting sanctions. However, Britain and the US oppose any such timetable.

Thawra, the newspaper of Iraq's ruling Baath Party, yesterday warned in a front page editorial that food supplies were running out. Food rations were recently cut by up to 50 per cent.

Surge in UK exports helps trim trade deficit

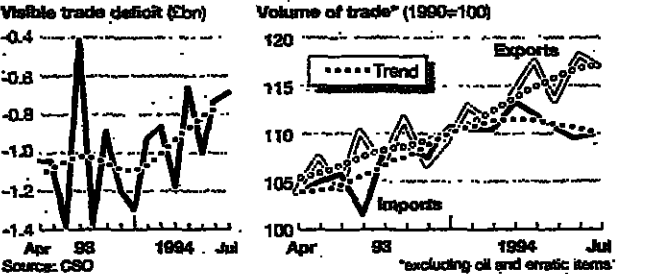
By Gillian Tett, Economics Staff

The UK's trade position with the rest of the world is improving significantly as exports surge to meet strong world demand and imports of consumer goods fall, official figures showed yesterday.

The trend suggests that the nature of the UK recovery is changing, as export-led growth begins to play a larger role than consumer spending.

Meanwhile, a continued fall in the trade deficit last month has dampened fears that the upturn might trigger a new balance of payments crisis by sucking in imports to meet growing demand.

Trade trends improve



The Central Statistical Office said yesterday the UK trade deficit with the rest of the world fell to a seasonally adjusted £704m in July from £728m in June.

Measured on a three-monthly basis, seen as a more accurate guide to the underlying trend, the deficit narrowed to £2.45bn in the three months to July. This is the smallest deficit since 1987, barring a temporary low point three years ago. It compares with a deficit of £3.48bn in the same period a year ago.

Continued on Page 24

STOCK MARKET INDICES

| | | | |
|--------------------------------------|---------------------------|--------------------------------|--------------------------------|
| FT-SE 100: 2,998.7 (+14.3) | US lunchtime RATES | STERLING | DOLLAR |
| Yield: 4.22 | Federal Funds: 4 1/4% | New York lunchtime: \$ 1.56675 | New York lunchtime: DM 1.54675 |
| FT-SE Euroshare 100: 1,287.3 (-2.85) | 3-m Treas Bill: Yld 5.04% | London: \$ 1.56675 | FFr 5.28 |
| FT-SE A-All-Share: 1,494.19 (+0.39%) | Long Bond: 9 1/4% | London: \$ 1.5695 (1.588) | Sfr 1.2815 |
| Nikkei: 19,744.75 (+88.52) | Yield: 7.944% | \$ 1.5905 (1.588) | Y 100.465 |
| London lunchtime | | DM 2.4511 (2.4526) | London: DM 1.5411 (1.5444) |
| Dow Jones Ind Ave: 3,705.86 (+11.10) | | FFr 6.3767 (6.3822) | FFr 5.2868 (5.2785) |
| S & P Composite: 453.84 (+1.58) | | Sfr 2.0318 (2.0336) | Sfr 1.2775 (1.2805) |
| | | Y 159.403 (158.403) | Y 100.225 (99.73) |
| | | | S index 82.2 (name) |
| | | | Tokyo close Y 100.02 |
| | | | |

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NEWS: EUROPE

Madrid may inject cash into Iberia

By Tom Burns in Madrid

In the wake of the European Commission's controversial decision allowing the French government to provide fresh subsidies to Air France, the Spanish government is expected to request similar authorisation before the end of the year for Iberia, its financially crippled airline.

Iberia is expected to lose Ptas44bn (\$343.7m) this year, up on earlier estimates of Ptas30bn, and its accumulated losses by December will have effectively wiped out a Ptas20bn capital injection authorised by Brussels in 1992 on condition that no more public money be made available until 1996.

The request to allow immediate additional funds for the state-owned carrier, likely to total at least another Ptas20bn, will be accompanied by a drastic cost-cutting programme. Iberia plans to lower salaries by an average 15 per cent over two years and to shed 2,120 jobs from its 24,456 labour force.

The cuts, which form the basis of talks with the airline's unions over the next two weeks, are viewed as a test case for the government's declared policy of substantially reducing losses in the public

sector. Yesterday the unions said they would not begin to negotiate the proposed cuts unless there was a shake up of Iberia's senior management.

The heavy losses are likely to prompt the removal of Mr Juan Sáenz who was appointed Iberia's managing director in September last year. A plan drawn up by Mr Sáenz to segment Iberia's business by giving off its maintenance, handling and systems units to other companies, was shelved in May after union opposition.

Responsibility for Iberia's critical balance sheet could extend right up to Mr Javier Salas, the chairman of both INI, the public sector holding company which is the airline's sole shareholder, and, since September 1993, also of Iberia. The government is seriously worried that the airline is draining the resources of profitable INI companies such as Endesa, the partially privatised electricity utility.

Iberia could show a small operating profit this year, but its balance sheet is heavily burdened by its fleet renewal and its expansion in Latin America where it owns 85 per cent of Aerolineas Argentinas, and has substantial shareholdings in Chile's Ladeuco and in Venezuela's Visa.

SELL-OFF GUIDE HAILED

The Spanish cabinet yesterday sent to parliament a set of legislative initiatives governing future privatisations and deregulating the telecommunications sector, that were hailed as "revolutionary" by Prime Minister Felipe González, writes Tom Burns.

The new legal framework for upcoming privatisations establishes a principle similar to that of the "golden share" that allows the government an effective veto over decisions considered to be of strategic interest, that might in future be taken by formerly state-owned institutions. The framework sets the stage for large-scale global offerings next year by the energy group Repsol and by the Argentinian banking corporation, which are both government-controlled.

The telecommunications initiative establishes guidelines for the total deregulation of the sector in Spain by 1998 and it includes a new law that will soon go before parliament setting the terms for the introduction of cable TV. Mr González said the legislative package represented a "cultural change" for Spain and a strategic leap forward in its competitiveness.

Kohl to 'stay on at least 4' more years

By Quentin Peel in Bonn

Chancellor Helmut Kohl yesterday spread confusion over his plans for eventual retirement, saying he intends to stay in office for the next four years - if he wins the election - but leaving a question-mark over what will happen then.

In a masterly piece of electoral mystification, Mr Kohl rejected any sugges-

tion that he might quit sooner, but declared that he would be satisfied with a period in office until 1998.

"If I am given the opportunity and the health to be chancellor for another four years, this will be a big enough achievement," he said.

Suggestions in a recent television interview that he would still be chancellor after the year 2000, when he will be 70, he described as "weird". But he

still gave nothing away.

Appearing at the last major press conference of his election campaign before the poll on October 16, he stressed his determination to see his two great projects accomplished - German unification and European unification. The latter meant that the forthcoming inter-governmental conference of EU member states, in 1996, must make further big strides towards inte-

gration, including a significant boost in the role of the European parliament.

"This conference must bring us an important step further," he said. As for the enlargement of the EU, he called for a firm timetable to be set for the admission of the new democracies of central and eastern Europe. He repeated his determination that "the eastern border of Germany cannot be allowed to remain the eastern border of the EU."

Treuhand to seek more cuts in steel output

By Judy Dempsey in Berlin

Germany's Treuhand privatisation agency is likely to push for further cuts in steel capacity in eastern Germany in a bid to persuade the European Commission to accept the sale of Eko Stahl, the last of the East German steel mills, to Cockerill-Sambre, the Belgian steel producer.

Mr Hans Schwarz, head of the workers' council at the Hennigsdorf steel mill in the eastern state of Brandenburg, said the agency might buy back a part of the mill in order to close down one of the hot-rolling complexes which is under-utilised.

Hennigsdorf, which is owned by Riva, the Italian privately-owned steel group, produces about 700,000 tonnes of steel a year, but its capacity could increase to 1m tonnes when its hot-rolling operation is complete.

The agency's policy could have the effect of keeping overall capacity levels in eastern Germany down. If Cockerill buys Eko Stahl, but could also mean further job losses in the industry.

Under the terms of the European Union steel levels agreement, Eko Stahl must not produce more than 900,000 tonnes until 1999, when production can then rise. Mr Schwarz said the 850-strong work force at Hennigsdorf would be reduced by nearly a sixth if the plans went ahead.



Chancellor Helmut Kohl greets supporters after arriving at Leipzig to garner support ahead of the elections on October 16

Kohl and Scharping look east

Quentin Peel in Leipzig

Five years ago tomorrow, some 70,000 people of Leipzig took to their city's streets in open defiance of a massive deployment of riot police, army and militia to demand reform, democracy and civil rights.

"We are the people!" was their cry, in a confrontation with the authorities which they feared would become another Tiananmen Square.

Against all the odds, it ended without bloodshed. It was an heroic anti-climax which opened the door for East Ger-

many's peaceful revolution.

This week, they have been finding out just what they were prepared to lay down their lives for: the full force of parliamentary elections, west German-style. And the people of Leipzig are clearly a little baffled by the experience.

First came Chancellor Helmut Kohl, the man who seized the opportunity for German unification after those extraordinary events of 1989. He called for their thanks, their loyalty and their votes for his Christian Democratic Union (CDU) on a cold, rain-soaked evening in what used to be Karl Marx Square.

And then in strode Mr Rudolf Scharping, his arch-rival from the Social Democratic Party (SPD), to preach a different gospel on the old Market Square in front of Leipzig's restored medieval town hall: that the "unity chancellor" had got it wrong, that he was to blame for their job losses, their bitter unemployment and soaring rents. They should vote, instead, for a change, he said.

The voters are a sharp contrast to the massive rallies which marked the peaceful revolution. Back in 1990, Mr Kohl pulled in an estimated 300,000 on the renamed Augustus square, in front of the city opera. Last week, the figure could not have been much more than 3,000, including a raucous knot of jobless demonstrators, who braved a squally night to hear his speech.

The city of Leipzig is already a dramatically different place to the one which saw those Monday demonstrations in October and November, 1989, spilling out from the prayer sessions in the Nikolai church, under the shadow of Karl Marx University.

He rounds on the demonstrators with a fury which suggests that he cannot understand their ingratitude: they are the Communists who, like the Nazis, brought down the democracy of the Weimar republic, he declares. They are

Western stores, sleek shoe shops and bustling supermarkets dominate the cleaned up streets of the city centre, cranes swing on all sides over the skyline, and fast food from Movenpick and McDonalds has replaced the soggy fare from half-empty state restaurants.

There is still a slightly scuffed and hang-dog look to the passing pedestrians, still sporting cheap, colourless clothes left over from the old regime. But no one is too scared to shout their protests at the disappointments of unification, or even sling a solitary egg at a poster of the chancellor.

They carried crosses for each local factory which has been forced to close in the harsh privatisation process which followed economic and monetary union between the two halves of Germany, and countered the loyalists' chant of "Helmut! Helmut!" with a barrage of whistles and cries of "Kohl must go!"

The chancellor was unmoved. He looms over the microphone under a massive party slogan - "Vote CDU to make sure it goes on getting better" - and belabours his message through loudspeakers - "I am the man who brought you unification. Vote me."

Most of his speech is pure history: recounting those heady days when he thrashed out the deal with President Mikhail Gorbachev which set the seal on German unity. This is Kohl the statesman, the man of history, the man they owe.

He rounds on the demonstrators with a fury which suggests that he cannot understand their ingratitude: they are the Communists who, like the Nazis, brought down the democracy of the Weimar republic, he declares. They are

the ones who would do it again. And he castigates the Social Democrats for any hint that they might be prepared to use communist support to defeat his coalition government in Bonn.

Mr Scharping is another animal. He is full of facts and figures, of jobs lost and policies mismanaged. His rival promised that unification would be all but painless, and he lied, he says.

He reels off all the tax rises, the soaring rents and prices, the unemployment and the squeeze on social spending. He promises more social justice, and more cash payments for children, as well as a fairer distribution of the tax burden.

It is all a bit lost on his audience, until he comes to questions of housing, rents and property. That is what they understand: the uncertainty of living in homes which might suddenly be sold, and the shock of paying western rents on eastern wages.

Mr Scharping says he will freeze the rents, and ensure that former property owners get compensation, not restitution.

"I like what he is saying," says a severe-looking middle-aged lady in a yellow overcoat. "But I'm not sure he can deliver it."

A grim-faced worker is quite sure where his vote does not lie: "That Kohl is shameless," he insists. "I'm 59 and unemployed. He cost me my job."

But the electors of Leipzig are learning fast. "That's all electioneering," says a leather-jacketed motor mechanic, looking suspicious at being questioned for his views. "You've got to take it with a pinch of salt. I'm just happy that I've got a job."

Swedish premier calls in executives

By Hugh Carnegie in Stockholm

Mr Ingvar Carlsson, Sweden's new Social Democratic prime minister, yesterday called in a group of the country's top business leaders to advise him on industrial policy, including three executives who launched a thinly-veiled attack on Social Democratic policies during the general election campaign.

Mr Carlsson, who officially assumed office yesterday, outlined in his opening speech to the Riksdag (parliament) his government's policy platform and said that he was appointing a special industry advisory committee to support him in his efforts to reduce unemployment, running at around 14 per cent of the workforce.

The committee is to include Mr Percy Barnevik, chief executive of the Swiss-Swedish engineering group Asea Brown Boveri, Mr Lars Ramqvist, chief executive of the telecommunications group Ericsson, Mr Bo Berggren, chairman of the forestry group Stora, Mr Leif Johansson, chief executive of Electrolux, and Mr Bert-Olof Svanholm, head of the Swedish division of ABB and chairman of Volvo.

All five, who will be joined by other senior Swedish business leaders, are key figures in the Wallenberg family industrial empire. Mr Ramqvist, Mr Berggren and Mr Svanholm were co-signatories of a newspaper article shortly before last month's general election which warned of the threat to investment in Sweden if the new government introduced policies harmful to industry. They most strongly opposed income tax increases which Social Democrats are committed to.

Mr Carlsson, saying his top priority was to tackle the budget deficit and reduce unemployment, said new jobs must come from industry. "Sweden needs more companies and more company owners," he said. "This requires closer co-operation between the government and industry. I will personally be strongly engaged in this work."

The Social Democrats plan to increase investment incentives and may raise the corporate tax. But the new prime minister gave no indication that he would back down on his election programme of raising marginal income taxes, wealth and capital taxes and taxes on dividends.

Mr Carlsson said the election plan, which also included spending cuts, and measures already approved by parliament this year would over the next four years strengthen the budget by SKr80bn.

Apart from the public finances and unemployment his four other priorities were to protect and develop the welfare state, increase Sweden's international engagement, deepen co-operation in Europe and harmonise the environment and industry.

Yeltsin gets a taste for the spirit of politics

By John Lloyd in Moscow

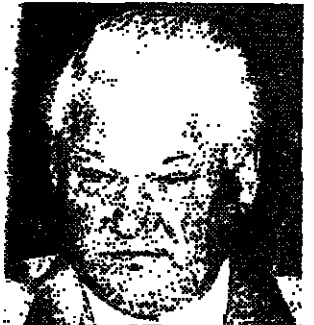
The official Russian news agency, Itar Tass, yesterday published excerpts from a letter from President Boris Yeltsin to Mr Albert Reynolds, the Irish prime minister, which express the president's "sincere regret" for the "annoying misunderstanding" which kept him inside his jet at Shannon airport on his way back from the US a week ago, instead of attending a scheduled meeting with the prime minister.

Mr Reynolds, with great good humour, accepted the explanation given to him by Mr Oleg Soskovets, first deputy prime minister, that Mr Yeltsin was "unwell" and "fatigued".

Mr Patrick McCabe, Irish ambassador to Moscow, said yesterday the letter, sent on Tuesday, was "warm and gracious": it repeats an already-issued invitation to Mr Reynolds to visit Moscow next year, and looks forward to a meeting at the Conference on Security and Co-operation in Europe in Budapest in December.

It could not have escaped the attention of the Irish, however, that Mr Yeltsin said he was not unwell when he returned to Moscow, proffering instead the explanation that his security people had not allowed him to be woken and that he was annoyed about it, an explanation the letter seems to implicitly endorse.

The Irish snub completed a troika of such events. Last month, Mr Yeltsin seized a



Yeltsin: stayed on plane as Irish PM waited on tarmac

but are shrugged off, as if to say: "What would you expect?"

The official Communist party disapprobation of drunkenness, which reached a peak when Mr Mikhail Gorbachev came to power in 1986 and banned drinking, has wholly gone. It had anyway been, in the latter part of the Soviet period, largely hypocritical: Mr William Pokhlebkin, whose "History of Vodka" appeared three years ago, says that, in the 1970s, "it was no longer possible to evoke a popular contempt for drunkenness, to create an attitude of disdain for drunkards, since heavy drinking had lost its stigma as a grave offence incompatible with the Soviet system".

Now, alcohol is indispensable compatible with the good life, or efforts to stimulate it. Most of the street kiosks sell alcohol of varying sorts. It is available in large quantities at official, as well as private, receptions.

Mr Genady Zyuganov, the increasingly militant leader of the Communist party, said yesterday that the opposition would be out in force next week to debate parliament's relations with the president.

The Communists have shown that they have no inhibitions about attacking Mr Yeltsin for his alleged drinking habits: the issue will come up again, and, if the allegations have a basis, then Mr Yeltsin, his health uncertain, is in poorer and poorer shape to withstand the attacks.

Discord on rouble's fall

Russian ministers yesterday gave sharply different accounts of the rouble's rapid fall, reflecting fear in government circles over Russia's reform course, writes John Lloyd. Mr Sergei Dubinin, acting finance minister, said the fall was "profiteering, pure and simple" by commercial banks, and that the rouble would rise again soon. But Mr Anatoly Chubais, deputy prime minister in charge of privatisation, told regional presidential representatives the fall was a "result of half measures and deviation from the financial policy".

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INTERNATIONAL NEWS DIGEST

Italy seeks new budget formula

The Berlusconi government is urgently studying ways to reformulate its 1995 budget after its rejection by the senate. The search for a new formula followed a surprise vote in on Thursday rejecting plans to raise 15,000bn (€2bn) from an amnesty on buildings constructed without proper permits. The funds would be raised through charging registration fees for regularising property development and construction carried out without permits since 1985.

Along with a further 110,000bn due from a pardon on disputed tax assessments, the two items were the main source of new revenues in the 1995 budget. Overall, the budget, which began its path through parliament this week, is due to find 150,000bn in fresh revenues and spending cuts to reduce the public sector deficit to below 8.5 per cent of GDP.

The illegal construction amnesty has been hotly contested by the opposition, especially the Greens. Also at least five regional administrations have filed suits with the constitutional court seeking to block the measure which is seen as condoning uncontrolled speculative building. In the senate, where the right wing coalition lacks a majority, the government was handicapped by several absences. The vote was lost by 113 to 115. The government has pledged to devise a means of re-introducing the legislation, but finding the necessary consensus in the senate may prove difficult. Mr Lamberto Dini, the treasury minister, warned this week that in the event of revenue shortfalls, the government would have to resort to extra taxes. *Robert Graham, Rome.*

UN troops expel Moslems

United Nations troops yesterday drove Moslem forces from the Sarajevo demilitarised zone at gunpoint after Bosnian Serbs threatened revenge for a commando raid in which 20 Serb soldiers and women nurses were killed. Peacekeepers said they had evicted at least 550 men of the Moslem-led Bosnian government army from the Mount Igman area of the zone and destroyed their bunkers and trenches.

UN commanders feared the Moslem attack, launched from the DMZ against a Bosnian Serb army command post, would wreck their efforts to lift a Serb blockade of aid for civilians. Angry Serb leaders had warned they might order UN peacekeepers off their territory, but the first UN aid flight to the city for 15 days touched down safely yesterday morning. The operation to flush the Moslems out of the DMZ, begun on Thursday and continued overnight, was to pre-empt any attempt by the Serbs to do the job themselves. UN envoy Yasushi Akashi made clear to the Moslems he would order Nato air strikes against them if they refused to obey. *Reuters, Sarajevo.*

Polish TV licensing row

Differences over licensing policy inside Poland's TV and Radio Council, a regulatory body, are delaying plans by Canal Plus, the French pay television channel, to go on the air. The French company, which has invested \$4m in Poland and plans to invest another \$8m, called on the council's new chairman Mr Janusz Zatorski to grant the licence promised last summer. The delay in signing the licence has given rise to fears that Mr Zatorski plans to grant the frequencies to another operator such as the Italian-owned Polonia network which failed to win a licence in the original contest but is held in higher regard by President Lech Walesa, who appointed Mr Zatorski.

Canal Plus is also under pressure from Multichoice, owned by Mr Rupert Murdoch's News Data Corporation, which is marketing a pay TV service subtitled in Polish. Multichoice is also offering coded satellite channels like Filmmat and Discover, but has not gone through the expensive and time-consuming licensing procedures completed by Canal Plus. The French company yesterday called on the Radio and TV Council, to examine the legality of Multichoice's operations which threaten its profitability. *Christopher Bobinski, Warsaw.*

Danish economy grows at 5.7%

Denmark's gross domestic product increased by 5.7 per cent in the second quarter against the same period last year, taking the growth rate for the first half year to 5.4 per cent (in constant prices), according to the official Statistical Office. The first half recovery was led by consumer demand, which soared by 8.1 per cent compared with last year. Exports grew by 6.8 per cent, with second-quarter exports up by 9.6 per cent. Gross fixed investment increased by 3.2 per cent.

The rapid increase in demand generated a strong import growth, with imports up by 13.5 per cent in the first half and by 11 per cent in the second. The Danish recovery is supported by strong demand for exports, but it was also stimulated by a major boost to domestic demand from government fiscal policy last year. Widespread conversion of mortgage loans from high coupon to low coupon bonds last autumn and in the spring also made a significant contribution to consumer spending by reducing the cost of servicing mortgages. *Hilary Barnes, Copenhagen.*

Commuter anger explodes

Stranded Indian commuters went on a rampage yesterday, burning railway carriages, looting shops and attacking buses after a delayed train halted peak-hour traffic into Bombay. Trade commuters attacked railway property at about 11 suburban railway stations, beating up railway staff, burning furniture and stealing cash from ticket offices. At least 34 people were taken to hospital, including 20 railway staff. Police opened fire at Bhayandar to quell angry mobs, and used batons elsewhere to try to maintain order. Police said at least 70 buses were damaged, while 10 carriages of a train were set ablaze. Passengers pulled out the seats from another train and made them into a bonfire.

More than 500 suburban trains were cancelled because of the day-long violence. Hundreds of commuters squatted on the tracks blocking trains into the evening. Railway staff said train services would be disrupted for at least 48 hours because of the violence and damage. It was the fourth time since July that violent commuters had attacked railway property following the disruption of services. Bombay's suburban railways carry more than three million commuters a day into the banking and commercial centre. *Reuters, Bombay.*

China urges patents crackdown

China, under strong pressure from the US to protect copyrights and patents, ordered its courts yesterday to wage war on violators of intellectual property rights. The Supreme People's Court of China issued a circular to all civilian, military and special courts to "conscientiously study and research... laws governing protection of intellectual property rights", the official People's Daily said yesterday.

Foreign businessmen in China have expressed concerns over the abilities of courts to deal with the often highly technical nature of copyright issues. According to the circular, courts have been advised to select people with foreign language abilities and background in science and engineering to take part in copyright violation trials. The courts were also told to resist protectionism in local governments and other government agencies. *Reuters, Beijing.*

Earthquake insurance bill rises

Estimates of insurance losses from the Los Angeles earthquake last January have been raised from \$7.2bn to \$9bn after a surprising number of new claims. The American Insurance Services Group said. More than 100 new claims a day are being reported by insurance companies, the group said. About 350,000 claims have now been received by insurers. Homeowners' losses represent 76 per cent of claims, with commercial losses accounting for an additional 12 per cent. The heavy losses reflect the thrust-fault motion of the earthquake which exerted enormous forces on structures. The earthquake hit the heavily populated area of north-west Los Angeles on January 14, causing extensive damage over a wide area. *Louise Kehoe, San Francisco.*

Market crisis spurs probe into Hualon links

By Laura Tyson in Taipei

Taiwan's monetary authorities yesterday launched an investigation into the extent of financial institutions' exposure to the Hualon group, a textile conglomerate, in the wake of the country's worst stock market crisis in two years.

Four of the group's executives were detained on Thursday as they tried to leave the country after payments defaults triggered when underground financiers called in loans. Another was detained last night.

They are being held under suspicion of violating article 155 of the Securities and Exchange Act, which prohibits direct or indirect manipulation of share prices. The maximum sentence is seven years in prison or a T\$750,000 fine.

Relative calm returned to the market, which fell by more than 4 per cent on Thursday. Mr Qung Ta-ming, a Taiwanese legislator and Hualon's behind-the-scenes head, conceded he was not entirely blameless but said he could do nothing to resolve the matter until Ms Li Hsin-fen, his top aide and manager of his share trading activities and one of the executives who has been detained, was released from detention to help clarify matters.

Mr Qung enjoys virtual immunity from prosecution as a lawmaker. He launched his political career with his election to Taiwan's Legislative Yuan shortly after a similar share payments crisis in 1992 to which he was also linked.

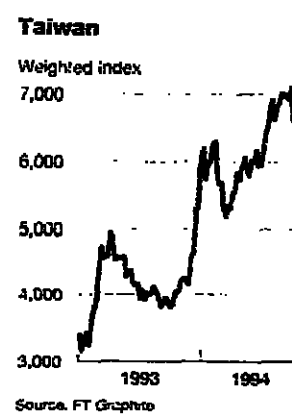
The Securities and Exchange Commission said yesterday defaults had been staunch at

T\$7.6bn. Mr Day Linin, SEC chairman, said the incident, which sparked a share index dive of more than 7 per cent in two sessions, had been contained and would not precipitate instability.

According to figures from the Central Bank of China, outstanding loans to Hualon's five listed companies alone amounted to at least T\$2bn at the end of August, newspapers reported.

Loans from banks, bills finance companies and other formal financial entities to Hualon-Taiwan were reported to total more than T\$10bn. Central bank officials could not be reached for comment.

Brokers said it was impossible to estimate the group's borrowings from underground financiers. Market sources estimated Mr Qung has T\$4bn in



cash on hand. Taiwan banks generally lend on the basis of full security, mostly in the form of real estate or equipment, but sometimes they hold securities as collateral.

Market sources said some banks refused to lend to entities affiliated to the Hualon group following a similar share payments default crisis in autumn 1992. That resulted in default totalling T\$9.2bn.

As well as being one of Taiwan's wealthiest men, Mr Qung is a powerful politician. He controls the parliament's finance committee and is said to have his own faction of a dozen or more legislators in the 161-seat legislature.

He is an enigmatic character who sports a scraggly beard, dresses sloppily and is renowned for his retinue of attractive young women. "Qung Ta-ming is very mysterious; you can't try to understand him using normal logic," said a Taiwanese investment banking source.

The analyst suggested that

with Taiwan's closely-knit business and politics, there was likely to be more to the situation than met the eye. "Anything related to politics here is not so simple - you can't just add one and one and come up with two," he said.

Hit by a global slump in the textile industry, Hualon-Taiwan Corp posted net losses of T\$341m (US\$11.2m) in 1993, the fourth consecutive year in the red.

The company forecasts a profit of T\$368m (US\$13.5m) in 1994. One of Taiwan's biggest textile companies, Hualon-Taiwan's total assets stood at US\$1.7bn at the end of 1993. Total group assets are estimated at US\$2.5bn.

Mr Lin Chen-kuo, the finance minister, said those responsible for the defaults crisis would be brought to justice.

China defiant after second nuclear test

By Tony Walker in Beijing

China yesterday ignored appeals for a moratorium on nuclear testing and strongly defended its second underground test in four months.

The Chinese insist that they lag well behind other nuclear powers in testing. "Among all the nuclear states, China has conducted the least nuclear tests," the foreign ministry said. China is believed to have conducted 41 tests compared with 1,000 by the US.

Beijing said it remained committed to a comprehensive nuclear test ban treaty by 1996 and repeated its proposals for treaties on the "non-first-use" of nuclear weapons and the removal of threats of nuclear attack against non-nuclear weapon states.

But western governments lodged protests over the test at the Lop Nor site in far-western Xinjiang province. Britain "regretted" the test and Australia instructed its embassy in Beijing to "convey its concerns". Russia expressed regret and concern and advised Beijing to rethink its policy. Mr Miguel Marin-Bosch, chairman of the conference on disarmament committee on a nuclear test ban said in Geneva the latest blast was "not conducive" to advancing the 39-nation negotiations.

The foreign ministry in Beijing said China would end its

nuclear tests once a comprehensive test ban treaty came into effect. "China is actively participating in the negotiations on a comprehensive nuclear test ban treaty held in Geneva and hopes to see the conclusion of the treaty at the earliest possible date or no later than 1996," it said.

Australia's seismicological centre in Canberra detected the test early yesterday and said the detonation was consistent with a medium-to-large explosion. Yield was estimated at the equivalent of 40-150 kilotons of TNT.

China conducted its last test in June in spite of demands by the US and Japan to refrain. Beijing has steadfastly refused to join a US-sponsored two-year moratorium.

The foreign ministry official said China possessed a small quantity of nuclear weapons "solely for the purpose of self defence." He urged nuclear weapons states to agree to the destruction of all nuclear weapons soon.

In Canberra, Mr Gordon Bille, Australia's acting foreign minister, said China's continued testing was "out of step with the positive atmosphere" of negotiations on a comprehensive test ban.

"China must come to terms with the imminent fact of a ban on nuclear testing for all time in all environments," Mr Bille said.

Beijing to set up HK shadow body

By Tony Walker

China is to set up a special committee in Hong Kong in the run-up to the 1997 takeover to review legislation and recommend appointments to the judiciary.

Beijing's announcement of a "civil legislative committee" in direct competition with Hong Kong's Legislative Council deals another blow to Sino-British co-operation.

The official China Daily reported that the new committee would "oversee areas cur-

rently being supervised by the Legislative Council".

China was compelled to take this step after the British Hong Kong government closed the door to co-operation with China, the newspaper said.

China's declaration came 48 hours after Hong Kong Governor Chris Patten made the conciliatory offer of allowing officials of his administration informal contacts with Beijing's preliminary working committee - the body set up to prepare for Chinese rule.

Previously, Mr Patten had

banned any contact between Hong Kong officials and the PWC whose establishment last year was widely regarded as an attempt to undermine British authority.

Mr Patten made his offer in his third policy speech as governor, but China's response was dismissive. This reflects the parlous state of Sino-British relations.

British officials said that while the formation of a new committee to review legislation would be "unhelpful" the body would not come into being

until it was approved next year by the National People's Congress - China's parliament.

They also noted that until 1997 the committee would serve no practical function since it would have no authority to amend or reject legislation, or make appointments. Its recommendations would not take effect until sovereignty passed to China.

But those officials said that Beijing's negative reaction to Mr Patten's attempts at conciliation this week hardly augured well for increased co-operation.

Australia acts to deregulate utilities

By Peter Montagnon

AUSTRALIA plans new rules on competition next year which will allow for deregulation of utilities and pave the way for the eventual creation of a national power grid, its treasurer, Mr Ralph Willis said in London yesterday.

The changes, first proposed in the Hilmer report on national competition policy, involve the application of competition rules to previously exempted sectors, including businesses controlled by the governments of

individual states.

Mr Willis said the proposals, which would also introduce competition rules to the professions and statutory bodies for marketing commodities, were "the most significant element" of the government's programme for structural reform.

The new rules would give the federal government legal powers to restructure the power industry so that separate entities could be responsible for power generation, transmission and distribution as is now the

case in Britain.

This would remove state governments' effective monopoly on local electricity supply, by forcing open the distribution network to all generators, a particular breakthrough given Australia's federal constitution which binds national deregulation of utilities.

"We think it appropriate that we have a national grid so that we can remove excess capacity and generate competitive pressures on pricing," Mr Willis said.

The new rules might also

pave the way for privatisation of state electric utilities, but "the principal thing is to have competition," he said.

Mr Willis said the federal government planned to finalise the necessary legislative package by February next year and set in train the necessary institutional arrangements by mid-1995.

Eventually a similar approach could be applied to gas supply. National efforts were also under way to improve rail communications, Mr Willis said.

Japan's trade surplus falls

By William Dawkins in Tokyo

Japan yesterday reported a 15.7 per cent decline in the current account surplus in the year to August, the first drop in three months.

The improvement, hot on the heels of last weekend's settlement of the latest US-Japan trade row, reinforces the finance ministry's contention that the surplus is passing its peak.

The drop, to \$6.16bn from \$7.31bn in the same month last year, comes partly as a result of a surge in energy imports caused by an unusually hot summer, plus an underlying pick-up in consumer demand. It is becoming clearer that Japan is heading for economic recovery, Mr Yasushi Mieno, governor of the Bank of Japan, said yesterday.

Within the overall current account gap, the manufacturing trade surplus fell by 4 per cent to \$8.65bn, while trade in services showed a \$1.57bn deficit, 39 per cent more than the services deficit in August last year. Exports of goods rose by 12.3 per cent to \$30.39bn, while imports grew rather faster, by 20.3 per cent to \$21.74bn.

A recent sharp rise in the outflow of long term capital continued in August, at \$15.97bn, well over twice the \$6.8bn capital outflow in the same month of last year. This is mainly due to an increase in Euro-yen bonds issued overseas by Japanese companies, in search of cheaper capital in less regulated foreign markets. Sales by foreign investors of Japanese shares and bonds held in Tokyo played a smaller part in August's capital outflow than was the case in July.

Yesterday's fall in the surplus helped to ease pressure on the yen, so that the dollar rose 70.47 to close at ¥100.02 in Tokyo yesterday, the highest since September 1.

Airport to expand as protestors relent

By Gerard Baker in Tokyo

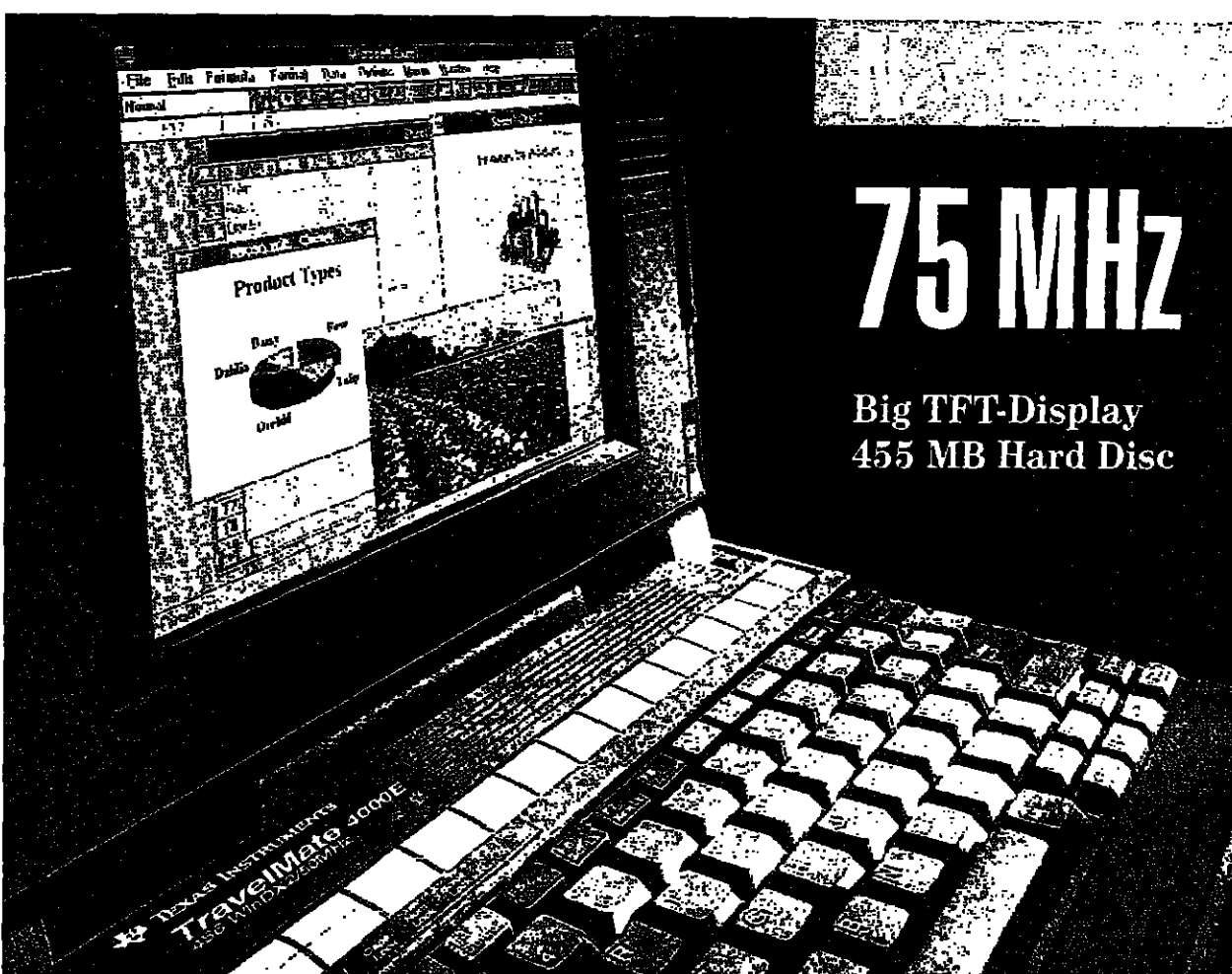
The Japanese government is expected to announce plans next week to increase capacity at Tokyo's overcrowded Narita international airport, following a deal with anti-airport pressure groups who have blocked expansion for almost 30 years.

Mr Shizuka Kamet, the transport minister, said his ministry had accepted a proposal from mediators that would settle its dispute with farmers and other groups hostile to the airport. He declined to comment on the details of the plan but it is understood to provide for the construction of one additional runway at the airport, 40 miles north-east of Tokyo.

Farmers and environmentalists successfully held up the original construction of the airport for more than a decade and have vehemently opposed any expansion, but they are understood to have agreed to the mediators' proposal. It calls upon the government to suspend plans for a third runway and not to press ahead with the construction of the second before completing extensive consultations with farmers and residents affected.

The transport ministry had originally proposed the construction of two more runways at the site to meet the rapidly growing demand for landing slots. An estimated 38m passengers are expected to use the airport in 2006, compared with 22m now. Airlines from 43 countries are awaiting permission for landing rights at Narita.

The compromise is expected to be formally approved at a final round of negotiations next Tuesday. However, the consultation process is expected to take several years to complete before construction of the runway can begin.



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NEWS: INTERNATIONAL

Bumper stickers cannot fix unruly, dirty and unlovely Bogota

City elections are focusing on social problems underlying the physical decay, says Sarita Kendall

Bogota is an unruly, dirty and unlovely city. It has outgrown its transport, sewerage and water systems, and there are 14 murders a day. As Mr Antanas Mockus, the candidate in mayoral elections on October 30 who leads the opinion polls by a large margin, told a hall full of students: "You can't fix Bogota by putting 'I love Bogota' stickers on your car. Instead, say 'I hate it, but I'll do something to improve it'."

Sick of empty electoral promises, Bogotanos have warmed to Mr Mockus's candid prescriptions. He is making no political pacts and his popularity scared the Liberals and Conservatives into discussing an alliance for the local government elections. When this fell through, Mr Enrique Peñalosa of the Liberal party was left as the other contender.

Fuelled by migrants from all over the country, the population of Bogota has grown at more than 4.5 per cent a year during the last decade to 6.3m. With about 16 per cent of Colombia's inhabitants and a third of its industry, the capital sprawls out from a ridge of mountains across a high plain, eating up rich farmland. The winter rains bring landslides to poor hillside barrios and floods to lower-lying ones.

Although many businesses have moved north from the original centre, public sector

offices are still largely concentrated in the town centre. A few streets of pretty colonial and early republican buildings survive in the Candelaria area in the city centre, but only three blocks from the presidential palace there are street walkers, drug dealers and any number of thieves carrying knives up their sleeves.

From time to time plans to remove the army of street sellers from the main avenues and to revamp parts of the centre are announced; but such enormous social problems underlie the physical decay that no mayor has had the courage to tackle them.

Mr Mockus, a mathematician and philosophy professor, took on one of the more difficult jobs in the country when he became rector of the anarchic National University. He resigned after television news programmes showed him 'moonlighting' (making a crude gesture of defiance) at a noisy university audience which would not let him speak, but students think well of him. "He's an intellectual in a million, a very good teacher. The university reforms he implemented have been successful - he's too far ahead on some things, though; people haven't his vision," said a graduate student.

The key to changing Bogota, according to Mr Mockus, is civic culture. All problems, including pollution, transport,

security and tax collection could be resolved more cheaply if people's attitudes changed. This message, which forms the core of his programme, has been well received in a city where corruption is rife and cries for help rarely answered. A recent study by the mayor's office found the lack of civic solidarity to be people's foremost complaint, followed by transport, violence and administrative incompetence.

The next mayor will have little to spend unless he can cut back on operating expenses. The capital has 60,000 people, including teachers and public employees, on the payroll.

"Bogota's financial situation has been deteriorating since the 1970s," said Ms Maria Eugenia Avendaño, in charge of UN projects at city hall. "Service tariffs hardly changed and the money went to pay off multilateral loans. Now there's been a big increase in the industry and trade tax and more people are paying the property tax. Debts of the public service companies have been refinanced, so there'll be something over for investment." Catching up on service provision is one of the priorities - only 60 per cent of households are linked to the main sewerage system and more than 200,000 water connections are illegal. Every year unauthorised barrios sprout on vacant lots; sometimes these



Asleep on the streets of Bogota: the city cannot cope with the sharp rise in population and growing poverty

take-overs are sponsored by unscrupulous politicians in search of votes. People living in areas such as Ciudad Bolivar, a vast conglomeration of low income barrios, resort to strikes to get the city to solve their most glaring problems.

One of these is transport.

Bogota has had no long-term transport or planning strategy and roads have been widened and flyovers thrown up in a haphazard way. The number of vehicles has risen to over 600,000, boosted by the liberalisation of imports. There are 50 bus companies and nearly 90

per cent of all trips are made on public transport, so it is not surprising a rapid transit system is regularly debated.

The British company Halcrow Fox analysed a series of proposals for transport strategies. "The evaluation process was very useful," said Mr

Mauricio Cuellar, a transport specialist working with the local administration. "It allowed us to arrive at a long-term project which attacks the main zones of congestion and central area access problems."

This would include a north-



Mockus: candid prescription

south metro line, combined with east-west bus highways. The metro is an expensive solution and would need a substantial contribution from the central government, which has promised special help for Bogota. It is one of the items on a list prepared by the Bogota 2000 planning team, along with the decontamination of the River Bogotá, the establishment of free trade zones and a host of projects.

As an attempt to involve Bogotanos in the discussion of their future and the choice between investment alternatives, the Bogota 2000 exercise is gathering steam. Mr Mockus thinks it is a good idea and wants to build on it. But his battle is not only to beat the powerful Liberal party machinery; if he wins, the mayor-elect will have to govern the capital with virtually no city councillors to back him.

Brazil's left-wing presidential candidate brushes off defeat

By Angus Foster in São Paulo

Mr Luiz Inácio Lula da Silva, defeated in Brazil's presidential elections on Monday, yesterday said his left-wing Workers' Party (PT) had been strengthened by the election and would continue its push for greater social reforms.

"We may have lost the election, but we have not lost our task," he said.

Mr da Silva appears to have been easily defeated in the presidential race by Mr Fernando Henrique Cardoso, a for-

mer finance minister and social democrat politician. With more than half the votes counted, Mr Cardoso has 54 per cent compared to Mr da Silva's 26 per cent. Mr Cardoso claimed victory on Thursday but Mr da Silva said he would not formally admit defeat until all the votes are counted, not likely before next week.

Mr da Silva, a former metalworker who has helped turn the PT into Latin America's biggest left-wing political party, said he had not yet decided about his own future.

This is his second defeat in presidential elections and, although only 47, it is unclear whether he wants to compete again.

Despite Mr da Silva's defeat, the PT has done well in separate elections for governors and Congress. The party is likely to elect its first state governor in the state of Espírito Santo and the party's number of senators could increase from 1 to at least 4.

Some politicians have called for a broad alliance of parties to support Mr Cardoso and

tackle Brazil's economic and social problems. But Mr da Silva said he thought "personally it is very difficult" for the PT to co-operate since Mr Cardoso was already allied with right-wing forces opposed to the PT.

The PT also called for a reform of the media, which strongly backed Mr Cardoso. Mr da Silva said groups like Mr Roberto Marinho's Globo, which controls Brazil's biggest TV broadcaster as well as newspapers and radio stations, were too powerful.

US unemployment figures at lowest level in 4 years

By George Graham in Washington

The US unemployment rate dropped to 5.9 per cent last month, its lowest rate for four years, but other statistics published yesterday showed the pace of job creation slowing.

The department of labour said the number of jobs outside the farm sector rose by 239,000 in September to 114.1m, after seasonal adjustment, with private sector employment rising by 174,000 to 95m.

Most economists said this growth was more modest than expected, even though it was offset by an upwards revision to non-farm jobs in August.

Financial markets had hoped

the employment report, the first significant indication of September's economic conditions, would give a clear picture of whether the Federal Reserve would need to raise interest rates again to slow the economic expansion to a less inflationary pace.

But the data offered mixed signals. After an initial fall, the US treasury 30 year bond climbed again and by noon had risen 3/4 to 94 1/2, with a yield of 7.94 per cent. Stocks followed bonds upwards, and by noon the Dow Jones Industrial Average had risen 14.8 to 3,790.36.

In all, the number of jobs in the US has risen by 3m so far this year, but the pace of job creation has slowed from an

average of 386,000 a month in the first quarter to an average of 258,000 a month over the July to September quarter.

These figures are based on a labour department survey of businesses, and are generally regarded as more accurate than the survey of households, which is used to produce the overall unemployment rate.

That rate has fallen from 6.7 per cent in January to 5.9 per cent in September, but interpretation has been complicated by a change at the beginning of this year in data collection methods.

Nevertheless, the current rate is lower than most economists' estimates of the "natural rate of unemployment",

below which workers start to bid wages up.

Average hourly earnings in the private sector rose by 0.3 per cent last month to \$11.16 and stand 2.6 per cent higher than they did a year ago. But with an increase in overtime, weekly earnings averaged \$386.14, up 0.6 per cent on last month and 3.2 per cent over the last year.

While many Wall Street economists argue that interest rates will have to rise again to quell inflationary pressures, businesses have been worried that the Fed, which raised its short term interest rates for the fifth time this year on August 16, might choke the economy into a recession.

Indicators keep everyone guessing on interest rates

By George Graham in Washington

If the Federal Reserve's policy makers wanted a nice, clear indication of the pace of the US economy's expansion from last month's employment statistics, they will have been disappointed.

That means that Fed-watchers, too, will have to wait a while longer before they see whether the US central bank will move short-term interest rates still higher in an effort to slow the economy's momentum before inflationary pressures build up.

Yesterday's announcement offered a battery of contradictions. A drop in the unemployment rate to 5.9 per cent, from 6.1 per cent in August, was balanced by a relatively modest increase of 239,000 in September in the number of non-farm jobs that in turn was offset by a sharp revision upwards in the number of jobs created in August to 246,000, rather than the weak 179,000 originally reported a month ago.

These conflicting signals confused the financial markets yesterday, and did little to change the opinions of private sector economists who have, for the most part, already placed their bets on the likelihood that the Fed will decide to raise interest rates another notch before the next meeting of its policy-setting Federal Open Markets Committee on November 15.

And they appear unlikely to have changed many minds at the Fed, whose last FOMC meeting 10 days ago decided to leave rates unchanged, leaving more time to see whether its increase of half a percentage point on August 16 will have its intended effect of slowing the economy's momentum.

The delay will irritate many in the financial markets, which have shown increasing impatience at what they see as irrefutable signs that the economy is still growing at an unsustainably fast pace in the third quarter, and have made clear their view that the Fed is "behind the curve" by pushing long term interest rates above 8 per cent.

But they may be underestimating the degree to which Fed officials believe they have acted in advance of inflationary pressures this year.

Fed officials warn that monetary policy is an uncertain business, with long and variable lags between a change in interest rates and its effect on the economy, and point out that they have already raised

the federal funds rate, which banks charge each other on overnight balances, by 1/4 percentage points this year.

Senior members of the FOMC, in recent speeches around the country, have appeared more worried about justifying to business leaders the fact that they have raised interest rates so far and so fast than about justifying to Wall Street their failure to move even further and faster.

Mr Robert Forster, president of the Atlanta Fed, told a meeting in Alabama this week that he expects growth to slow to around 3 1/2 per cent for the whole of this year and to around 3 per cent in 1995.

And Mr Robert Parry, president of the San Francisco Fed, told the Los Angeles Bond Club on Wednesday that the FOMC had been "a little bold to move this early." The effects of the most recent increase, he added, had "yet to be felt."

Such forward-looking monetary policy helps avoid the go-stop economic environment of the late '70s and early '80s, and it's much more likely to produce a lasting economic expansion, Mr Parry said.

Nevertheless, two of the indicators to which the Fed is generally believed to pay particular attention - the

unemployment rate and the industrial capacity utilisation rate - are now signalling that the economy is running at or beyond a pace which it can sustain without succumbing to inflation.

Calculations of the natural rate of unemployment, below which wage pressures start to build, vary. Few estimates, however, are much lower than September's rate of 5.9 per cent, and most Fed estimates are above 6 per cent.

Similarly, the Fed reported last month that the rate of capacity utilisation rose to 84.7 per cent in August, nearly one percentage point higher than reported in July and close to the level of 85 per cent at which industry is conventionally believed to start facing production bottlenecks and raising prices.

In fact, some Fed economists calculate that inflationary pressures begin even earlier, at around 81.8 per cent utilisation.

September's capacity utilisation rate is due to be reported next Friday. But the financial markets may have to wait a little longer to see whether the Fed feels that it needs to raise interest rates further to take some more steam out of the economy.

Haiti pullout before February 1996

US officials assured Congress yesterday they expected American forces to leave Haiti by February 1996 at the latest, but the White House said it was relieved Capitol Hill had not set a definite pullout date. Reuters reports from Washington.

"We fully expect that the entire operation in all of its phases will be over by February 1996, which is the date specified in the relevant UN resolution," defence undersecretary Walter Slocombe told a hearing of the House of Representatives armed services committee.

"We are very conscious of

the risk of getting sucked into things that seem like good ideas at the time that get us deeper and deeper in," Mr Slocombe said.

"And we are going to resist that temptation."

The White House said President Clinton wanted to withdraw US troops as soon as possible, but was pleased Congress had not demanded it by a certain date in a resolution passed on Thursday calling for a quick pullout.

"I think the president is obviously gratified that they did not include a certain date" for removing the troops, White

House press secretary Dee Dee Myers said.

"And the president certainly agrees with the notion that the troops ought to be withdrawn as soon as possible," she said.

The Senate and House voted Thursday to approve a non-binding resolution urging a prompt, orderly pullout of US forces, but didn't set a date. The Senate resolution also chided the president for refusing to seek congressional authorisation for the September 19 military intervention in Haiti.

Mr Myers said it was "no secret" that many lawmakers

had wanted Mr Clinton to ask for congressional approval prior to the intervention, and that he had a "longstanding disagreement" with Capitol Hill on the subject.

"I think he (Clinton) has outlined what the conditions for withdrawal are - a secure environment that allows us to turn the situation over to the UN," Ms Myers said.

Mr Slocombe said the US military operation is limited to restoring President Jean-Bertrand Aristide, ensuring parliamentary elections this year and presidential elections by the end of next year.

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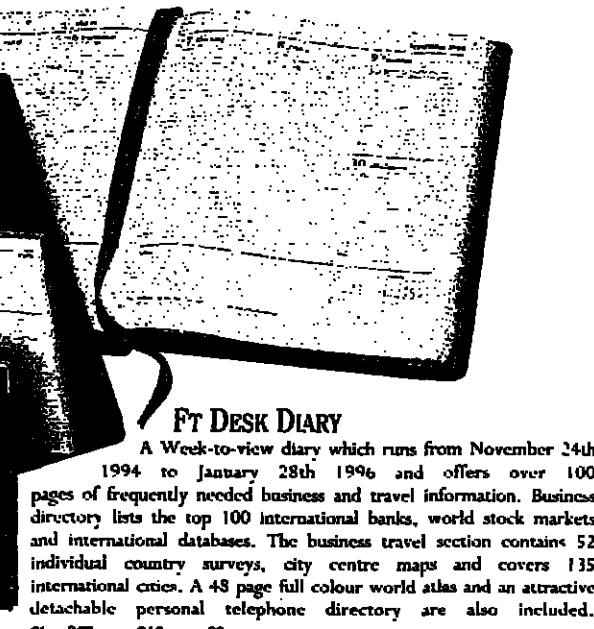
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Labour attacks MacGregor's move to City

By Philip Stephens and Charles Batchelor

A move by Mr John MacGregor, former transport secretary, to rejoin merchant bank Hill Samuel sparked a political row last night as Labour attacked the system which gives former ministers freedom to take City directorships.

Mr Brian Wilson, the opposition transport spokesman, said he would raise the appointment in the Commons when MPs return to

Westminster in 10 days' time. Hill Samuel, a subsidiary of TSB Bank, is advising the Department of Transport on the Channel Tunnel rail link. It was selected to advise on the rail link in August last year after a competition among a number of banks.

Mr MacGregor asked to take no part in the selection process because of his former links with the bank. Under government rules there are no restrictions on ministers taking jobs in the private sector which have

connections with their previous ministerial posts.

But Mr Wilson said Hill Samuel's involvement in the Channel tunnel link meant that Mr MacGregor's appointment as non-executive deputy chairman was "completely unacceptable". He said: "Hill Samuel are the direct beneficiaries of Mr MacGregor's policies, particularly in relation to the Channel Tunnel link."

Accusing the Conservatives of "sleazy and scandalous" behaviour,

Mr Wilson said: "It is completely unacceptable that the secretary of state at the time of Hill Samuel's appointment should immediately move over from government to boardroom". He added that "common decency dictated that Mr MacGregor should have steered clear of companies which were direct beneficiaries of his own policies". Downing Street indicated that it saw no conflict of interest.

The row follows a series of attacks at the Labour conference in Black-

pool on the jobs taken by former ministers. The opposition's opinion polling shows that the charge has a resonance with the electorate.

Rules issued by the cabinet office say there are no formal restrictions on former ministers taking up private-sector posts other than those which apply to all backbench MPs. The rules add that former ministers should avoid any actions which reflect adversely on their or the government's reputation.

Mr MacGregor worked at Hill Samuel for 11 years before his 15-year ministerial career. He remains MP for South Norfolk.

Before he became transport secretary in 1992 he served as chief secretary to the Treasury, minister of agriculture, education secretary, Lord President of the Council and leader of the Commons.

Mr Hugh Freedberg, Hill Samuel's chief executive, said Mr MacGregor's experience would be valuable in continuing to develop the business in the UK and internationally.

Brokers ordered to cease business

Clifton Stockbrokers, a long-established private client broker based in Torquay, has been ordered to cease carrying on investment business by the Securities & Futures Authority, David Wighton writes.

The regulator said the firm was "not fit and proper to carry out investment business and has committed serious acts of misconduct".

These related to its failure to meet its financial resources requirement laid down by the SFA and to "organise and control its internal affairs in a responsible manner". In particular the SFA said the firm had failed to register all its directors.

Rules on foreign exchange revised

The Inland Revenue yesterday published a legislative package for the modernisation of the tax rules governing foreign exchange gains and losses and financial instruments.

The package is the result of three years of consultation with businesses, many of which were concerned at the diversity of present practice.

Copies from Public Inquiry Room, Room G1, West Wing, Somerset House, Strand, London WC2R 2LL.

Loan manager gets five years

Mr Roy Wharton, the former chairman of Castlegate Securities, a Reading-based loan management company, was yesterday sentenced to five years' imprisonment for fraudulently misappropriating £35m of investors' funds.

He was convicted last month at Oxford Crown Court of two charges of fraudulent trading. Having given assurances about the security of investments, Mr Wharton pursued a speculative strategy which meant investors bore most of the risk while he reaped the financial benefits.

Disqualification of auditor sought

Mr Andrew Magill, the district auditor who in January provisionally recommended that councillors and officers of Westminster City Council should repay £21.5m after "gerrymandering" the council's housing policy, yesterday heard legal representations that he should disqualify himself from the case.

Mr Anthony Scrivener, the barrister representing Lady Shirley Porter, who was leader of the council when the alleged offences occurred, said Mr Magill had already made his view public, although he had not heard submissions from the respondent.

Tram project wins £100m loan

The European Investment Bank is to provide an Ecu127m (£100m) loan towards construction of the £260m tram system in Sheffield.

The first phase of the 19-mile long tram line opened in March and the project is due to be completed in early 1996.

Sixth London bus company sold

London Transport yesterday announced the sale of Metroline Travel, a bus company operating in central and north-west London, to its management for £20m.

This brings the number of London bus companies to be privatised to six and the total raised from the sales to £140m. Four companies remain to be sold and deals are expected to be completed before the end of December.

More gas jobs go

A further 325 British Gas jobs are to disappear from northern England as part of the company's reorganisation. A total of 225 administration workers in British Gas's service group, based at Sunderland, Carlisle and Thornaby in Cleveland are being offered the chance to transfer to offices at Uddingston, near Glasgow, and 100 store workers at a British Gas centre in Newcastle upon Tyne have been asked to consider moving to Leicestershire.

Scheme dumped

Plans for one of Europe's biggest rubbish dumps at east Aberthaw, South Glamorgan, were thrown out yesterday after fears that flocks of gulls would cause a "bird strike" accident near Cardiff airport.

Commercial radio set for London battle

By Alice Rawsthorn

A battle is brewing in the London radio market following the news that four new commercial stations will come on air in the capital next year, including a women's talk station, a Christian radio service and two rock music stations.

The Radio Authority yesterday announced that it was also renewing the two licences for the AM and FM popular music stations run by Capital Radio, which may face fierce competition for its audience and advertising revenue from the new rock stations run by the Virgin and Chrysalis entertainment groups.

Mr Richard Eyre, Capital's managing director, said: "Life is certainly going to become more competitive. But we're looking forward to the fight."

All four music stations have slightly different formats. Capital will continue its youth-oriented AM service and "golden oldies" Capital Gold station. Chrysalis aims to attract a female audience for Crystal FM with "soft rock" music from Phil Collins and Elton John. Virgin will target a young, male audience by adding London talk shows to the "hard rock" music already played on its Virgin 1215 station.

Mr Richard Huntingford, chief executive of Chrysalis Radio, said he was confident Crystal FM could carve out its own niche and that the new stations would bring new advertising revenue into London radio.

Observers in the advertising

industry were sceptical, however, that the expanded London radio business could be financed entirely by new revenue.

Mr Adam Crozier, executive media director of Saatchi & Saatchi, the biggest UK advertising agency, said: "There's certainly scope to attract new money. There may well be some redistribution of old money. It'll be up to each station to compete on the quality of their output and marketing."

Some radio executives privately criticised the Radio Authority which, they said, had not fulfilled its statutory obligation to encourage diversity. "There's been a clear change of policy," said one. "I don't think anyone expected there to be four music stations in Greater London when they did their business plans."

Lord Chalfont, chairman of the Radio Authority, said the decision to award the new frequencies was taken against the backdrop of increases in London radio listening and advertising revenue.

The decision also reflects the growing maturity of the radio industry, which is increasingly concentrated among large groups including Capital, Virgin and Chrysalis.

Radio Viva, the new women's talk station, is backed by Golden Rose, another established group that already owns the JFM jazz station.

London Christian Radio envisages raising some money from advertising but also hopes to sell subscriptions to the faithful.

Interest rate rise scares house buyers

By Andrew Taylor, Construction Correspondent

The housing market has been "knocked sideways" by last month's half percentage point rise in interest rates, according to a survey of more than 200 estate agents.

Some 50 per cent of agents said market activity, in terms of the number of people interested in buying, had declined since the interest rate rise.

The survey published by the National Association of Estate Agents said the rise had dented the confidence of potential buyers causing a "significant downturn in business".

Mrs Eva Lomas, the association's president, said the base rate increase, although small, had prompted a disproportionate fall in confidence.

She said: "Although interest rates are still at historically low levels, the improvement in

the economy is not being translated into confidence among the public and talk about further rate rises can only make the situation worse."

The association's market trends survey for September showed a significant fall in the level of inquiries, viewings, offers and completions compared with August. Only 53 per cent of agents expected the market to strengthen until the end of the year compared

with 60 per cent in August. Nearly half of all agents said that business generally had fared worse last month than in September 1993.

A separate survey by the Nationwide Building Society showed that average house prices in the third quarter of this year were higher compared with the corresponding period a year ago in 10 out of 13 regions.

The average UK house price in the third quarter, according to Nationwide, was £66,012, up 1.1 per cent on the second quarter and 2.9 per cent higher than a year ago.

The biggest annual increases to the third quarter were 9.1 per cent in the east Midlands and 7.9 per cent in Northern Ireland. However, prices fell by 1.8 per cent in the north-west, 2.8 per cent in the west Midlands and by 5.3 per cent in the northern region.



Eight descendants of engineer Sir Joseph Bazalgette, who designed London's sewerage system in the mid-19th century, went underground yesterday to admire his handywork in the Wick Lane sewer at Bow. Most of Bazalgette's sewers are still in place. London has a total of 1,500km of trunk sewers, much of it built by Bazalgette

Families choose direct insurers

By Ralph Atkins

Direct insurers, selling via the telephone and advertisements, are proving increasingly adept at persuading homeowners to switch house content and structure policies, according to a survey by the NOP market research group.

In the first six months of this year, more than half of those who took out a combined structure and contents policy for the first time did so through a building society, the survey shows.

But direct insurers, in spite of acquiring only 4 per cent of all first-time customers, attracted 21 per cent of those changing their policies from one business to another.

"Consumers' experience with motor insurance has taught them to shop around for the

best price. They are now using this experience in other markets - including household insurance," said Ms Heather McAdam, director of NOP's financial division.

She added that the housing insurance market was proving "increasingly dynamic. Although building societies are still acquiring the majority of first-time customers, they are finding it more and more difficult to retain this business."

The survey was based on interviews with 50,000 adults. NOP suggests that if the current trend continues, societies could begin to lose market share rapidly. It also finds that combined insurance policies are becoming increasingly popular - evidence that companies are putting more emphasis on cross-selling and promoting combined insurance products.

Howard aims to win over critics with past record

By David Owen

Mr Michael Howard will next week try to draw a line under what has been an immensely difficult year by portraying himself to Tory activists as the home secretary who has delivered.

With his competence increasingly under question after a string of mishaps Mr Howard's speech at next week's Conservative conference in Bournemouth is expected to draw heavily on the traditional Tory home secretary's pledges to crack down on crime and promote law and order.

But it will also focus on his record in the past 12 months, pointing out that he has already implemented the vast majority of the 27 law and order initiatives he unveiled at last year's conference.

In response to Tory grassroots concern about the nature of sentences handed out to some offenders, the speech is likely to contain a passage on the importance of punishment, arguing that prison conditions should be "decent but austere" and that prisoners' privileges must be earned.

This theme was highlighted yesterday in a speech on community sentencing by Lady Blatch, the home office minister, in Scarborough. She emphasised that sentences in the community should be an effective form of punishment and not a reward for offending.

Mr Howard's difficulties this year included the savaging in the House of Lords of two major pieces of Home Office legislation and the discovery of Semtex at Whittemoor prison.

Conference managers have

done their best to shield him from excessive media exposure, scheduling his speech for Thursday afternoon during what looks set to be conference's most packed day.

But such is the opprobrium heaped on his recent performance, both from Tory ranks and outside, that it appears unlikely that competition from cabinet colleagues will keep Mr Howard off the front pages.

There is a growing feeling among some observers that Mr Howard could be in danger of the same fate as Mr John Patten, the former education secretary, who was in effect left to soldier on as a lame-duck minister before being ousted in the ministerial reshuffle last July.

Anything less than an enthusiastic reception from delegates would be seen as another step down this slippery slope.

Pension reform levy attacked

By Nicholas Denton

The pensions industry said yesterday that government proposals for funding new pensions regulation would discourage occupational schemes.

The National Association of Pension Funds criticised Department of Social Security proposals to make employers pay for the setting up and maintenance of the proposed pensions regulator.

The NAPF is staking its position in advance of legislation due to come before parliament this autumn.

The government has put forward plans for a levy on the industry to finance the estimated £10m cost of the new office and has estimated the total burden of the reforms will be between £50m and £140m. The pension funds argue the

expense could be 10 times that and may inhibit occupational pensions.

"Our members support the... recommendation that the cost of regulation should fall on the state," said Mr Ron Amy, the NAPF chairman. "It should not be borne by employers who choose to provide pensions for their employees."

The NAPF statement backs the position of the Goods Committee on pensions law reform. The committee, set up after Mr Robert Maxwell had raided his companies' pension funds, called for an independent state-financed regulator to ensure there was no repetition of the Maxwell affair.

The government took many of the ideas on board in its white paper but watered down the power and independence of the regulator.

'It was rather like a long job interview'

Lisa Wood on the politically sensitive subject of young people working for nothing

Colin, a 23-year-old graduate in acoustic engineering, spent two months this year working for nothing, except expenses, at a well-established London-based film production company.

The result was a reference which secured him a job as a studio manager in a media company.

"It was rather like a long job interview," said Colin, who was surprised at the amount of responsibility he was given. "About half the people in the company where I was working started the same way, including the general manager."

An increasing number of young people like Colin are offering to take short-term, unpaid employment to gain a foothold in their chosen profession.

It is a sensitive area - there is a fine line between gaining genuine work experience and simply working for nothing.

Genuine work experience is part of much school and college-based training. For example, Pathfinders Personnel, the

London-based media subsidiary of Angela Mortimer, the secretarial consultancy, arranges work experience of up to four weeks with a range of employers on behalf of secretarial colleges. In the past two years it has made about 1,000 such placements.

Ms Amanda Fone, a director of the consultancy, said that in a competitive labour market more and more companies were pleased to take students for a short time. "Work experience is not replacing the interview, but rather becoming part of it, with many employers recruiting young people they have met on work experience," she said.

The consultancy checked that companies were treating individuals properly. "We ask students to contact us if at any stage they feel exploited. But, at the same time, we have to be realistic," she said. "Sometimes students are asked to do bits of photocopying - but that is different from doing it eight hours a day."

Nevertheless misuse of work

experience does occur and there is anecdotal evidence that the practice has increased during the recession, particularly in non-uniformed companies.

Work substitution of this kind may be particularly common in areas young people perceive as glamorous, such as the media, where the fragmentation of the industry and growth of freelance work has diluted the power of trade unions to stop longer-term placements where they may believe unpaid workers are doing the jobs of full-time workers.

Becky, the broadcasting trade union, where membership has fallen from 60,000 to 35,000 in the past four years, said: "We try to make it as difficult as we can for management to abuse work experience."

It pointed to what it considered to be an associated problem in the film industry, where crews are paid less than £2 an hour with the prospect of more money only after the film has

repaid its investors.

One problem for those on unpaid work experience is whether to continue to claim unemployment benefits. The lack of clear rules discourages individuals from declaring what they are doing.

It is not generally difficult for the person to satisfy the Employment Service that they are available for work. But the income support regulations operated by the Benefits Agency are more difficult to navigate.

If a claimant tells the BA about doing unpaid work, an independent adjudication officer will decide whether it is reasonable to do that work on a voluntary basis.

If the decision is that it is reasonable, all expenses relating to travel and meals are disregarded. The agency said the difficult part was assessing whether the job was truly voluntary, and the labour was extra to that provided by paid workers. "Obviously any charitable status of the employer or task would have a bearing on

the decision," it said.

Sometimes individuals are able to incorporate unpaid work experience into government training schemes. Florence, aged 27, was offered unpaid work experience by the Open University. "The OU offered me experience but said they could not pay me for it," she said.

Her local Jobcentre arranged for her training at the OU to be under the state training programme for the unemployed, then called Employment Training.

Florence said: "Once they trusted me I got a lot of responsibility." She got up at 6am every day to travel from Leicester to the OU at Milton Keynes. "But they did not take me on to avoid taking somebody else on full-time. At no point did I feel exploited."

Florence was offered a job at the OU. She did not take it as she was also offered one at the BBC, which had been impressed by her CV. But "it was wonderful to be given the chance to perform at the OU."

Disease link with meat 'inconclusive'

By Clive Cookson, Science Editor

A government-funded study released yesterday shows an apparent link between eating meat and Creutzfeldt-Jakob Disease, the human equivalent of BSE or "mad cow disease".

But the researchers said the statistical association was almost certainly a result of the way the study had been done rather than evidence that meat consumption could cause CJD.

The annual report of the CJD surveillance unit in Edinburgh said the number of CJD cases in the UK fell from 55 in 1982 to 40 last year after rising for the three previous years.

Statistical analysis of the cases showed no occupational link. People working with animals were no more likely than others to develop CJD.

CJD victims were more likely than matched control subjects to have been regular eaters of meat, particularly veal. Dr Robert Will, the unit's director, attributed this finding to "recall bias".

He said the only way of learning about CJD victims' diet was to ask their relatives, who inadvertently exaggerated the amount of meat eaten because there had been publicity about a possible link between BSE and CJD through beef or veal consumption.

To support the "recall bias" theory Dr Will said there was a similar excess of veal eaters among people who were suspected of having CJD when their relatives were asked about their diet but who actually turned out to have died from Alzheimer's Disease and other forms of dementia.

The study concludes: "There is no conclusive evidence of any chance in CJD that can be attributed to BSE."

It says the apparent increase in CJD since the 1970s has been caused mainly by the fact that the disease is being recognised in people over 75 who would previously have been diagnosed as having senile dementia.

NEWS: UK

Bankers prepare to scrap the grouse shoot

Shares in UK investment banks slid this week after warnings from S.G. Warburg and Hambros Bank that first-half profits would be sharply lower. Wall Street is braced for US banks' third-quarter results to show sharp earnings falls. Bronwen Maddox and David Wighton ask whether Warburg's strategy is to blame for its situation, or whether it reflects a downturn in investment banking fortunes

Warburg's rivals did their best this week to be discreet about taking pleasure in its discomfort. One leading London banker said: "I don't want to be seen to criticise them, because it could be us next."

That question - whether the UK's biggest investment bank is simply the first of the pack to acknowledge the impact of difficult conditions - is at the forefront of bankers' minds.

This week's announcements startled the markets because they came just months after City and Wall Street houses doled out glittering bonuses. After years of belt-tightening bankers as well as proprietors of wine bars, estate agents for the most fashionable parts of London and Manhattan, and even the sporting agents for grouse shooting in Scotland had started to believe the good times were back.

They are not the only ones concerned about the prospect of another lean period.

Banking regulators have been casting an increasingly sharp eye on banks' exposure to risky activities. A new directive on capital adequacy - the amount of capital banks are required to have in proportion to their level of activity - has emerged from Brussels. In the US the Federal Reserve is considering if banks' exposure to some of the riskiest financial instruments should be more tightly monitored.

In Warburg's case it is clear that some of the disappointment stems from its own circumstances. To a much greater degree than its UK rivals, it has modelled itself for the past seven years on the US integrated investment banks, offering a range of trading services as well as fee-based advice to its clients. Its ambitious expansion, particularly into the US, has pushed up costs, but revenues in some regions have followed more slowly.

While it has established a strong reputation for research and equity sales on Wall Street, particularly for selling non-US stocks to US invest-

ment houses, it has found it much harder to peel prized corporate clients away from the blue-chip US houses. One Wall Street observer from a rival house attributed this to Warburg's "British, gentlemanly" approach, although Mr Nick Verey, chairman of Warburg Securities, retorted that the US operations are staffed mainly by Americans.

He said rising costs played only a small part in the half-year downturn, and instead blamed most of the fall on the turbulence in world bond markets since the Federal Reserve began to raise US interest rates on February 4.

Some observers believe Warburg may have suffered from

'You do not tear up the script after a few difficult months'

its relative inexperience in large scale trading. Mr Martin Hughes, banking analyst at Credit Lyonnais Laing, said: "I think we will see that the banks that are losing money are those that are less familiar with risk control methods."

That is an argument which Mr Verey rejected. "It is not the case that we have lost large sums on trades, just that we have not been making enough profit," he added that he was satisfied with the risk-management systems on which the bank spent millions of pounds a year.

His argument that Warburg's troubles reflect a wider phenomenon is borne out by Hambros' report of a deterioration in profits in bond trading during the first half. Analysts expect that other UK investment banks which have traded on a smaller scale than Warburg, such as Kleinwort Ben-

son, will have suffered correspondingly less.

The pattern is repeated in the US, where the biggest traders have suffered most. Goldman Sachs' profits are believed to have fallen from \$1.2bn (\$750m) to \$446m in the six months to May 27 because of a fall in bond trading income. First-half net profits fell 44 per cent at Morgan Stanley, 28 per cent at Bankers Trust and 19 per cent at J.P. Morgan. Salomon Brothers recorded a first-half loss of \$138m.

At first glance many of these banks appear to have suffered less than Warburg, even though they are larger traders. Nor do they enjoy as healthy an injection of profits from asset management as Warburg does. Timing is partly to blame, however. Most US banks have so far reported only on profits up to June, whereas Warburg's warning covered July, August and September, when trading volumes shrivelled.

Analysts fear that third-quarter results from US banks, just starting to trickle out, will show a further plunge. This week Salomon announced that its third quarter would show an after-tax loss of \$100m, and last month Lehman Brothers, which announced that it was cutting free lunches for its staff, saw third-quarter profits plunge 80 per cent to just \$22m.

As many bankers stressed this week, trading is risky. Mr Verey said: "There is no perfect hedge against the risk - you have to take a risk to earn a return." In spite of this collective suffering, however, there are no signs that leading integrated investment banks intend to rethink their strategy and reduce their exposure to trading.

They still hold to the principle that they need a strong trading presence in order to compete for higher-margin business of underwriting, placing blocks of securities, and giving corporate advice.

But competition for big international corporate clients is

increasing, as demonstrated by the current scramble for a share of the partial-privatisation of Deutsche Telekom, the telecommunications giant. The result, one leading London banker said this week, was that investment banking would become an ever more volatile business, in which banks would be forced into increasingly risky activities, such as trading in derivatives.

That trend could deal a powerful advantage to the largest banks, which are better able to withstand the markets' volatility. Analysts warn that it could also put severe pressure on the smaller ones, such as Warburg. Mr David Poutney, banking analyst at brokers Collins Stewart said: "They [Warburg's] are just going to get killed in the US every time."

Although Mr Simon Leathes, Warburg group finance director, said that the bank was not constrained by lack of capital, it is clearly dwarfed by its US rivals. As the biggest of the UK merchant banks it has shareholders' funds of £1bn and total capital resources of £1.5bn. However Morgan Stanley, Salomon and Bankers Trust are about three times the size while J.P. Morgan's shareholders' funds are six times bigger.

Analysts predict that questions of capitalisation may eventually force some banks to merge and others to withdraw from the most competitive sectors. But for the moment radical strategic changes are unlikely. Mr Leathes said: "You do not tear up the script after a few difficult months."

Some smaller tweaks to strategy can be expected. Warburg itself will look harder at whether some advisory work should be subcontracted to law firms, and at whether competing for small company business is worthwhile.

For Goldman's part, its senior partner chief, Mr Jon Corzine, said recently: "There are lessons to be learned. You get overly optimistic in the bountiful environment of bull



The City of London's watering holes still seemed to be doing good business at lunchtime yesterday

markets. It was very easy in 1993 to think you ought to have a presence in every capital market in every major country in the world."

Some bankers are also reconciled to the prospect of job cuts. Mr Verey, who has announced a hiring freeze at Warburg, said: "We will look to

see whether people need to be replaced when they leave."

But in spite of these adjustments the message from both sides of the Atlantic at the end of a sobering week was that the markets should not have been surprised by the news.

When markets are tough, banks will suffer. In the course of economic cycles their profits will fluctuate.

The markets may have forgotten those facts in the heady atmosphere of last year, but this week's news was a reminder that the path trodden by the world's sleek-suited cohorts of investment bankers can be a rough one.

'Everybody is expecting less in bonus this year'

Pay and job cuts loom in the City after a week in which one US investment bank decimated staff and two UK houses issued profit warnings.

S.G. Warburg and Hambros said they were reviewing labour costs after warning that bond markets would depress first-half profits. Warburg is under particular pressure to economise - staff costs rose 40 per cent last year to give the average employee £106,000 a year, the highest of any UK house.

Bonuses, which can make half of an employee's compensation in a good year, are heading down. A fixed-income securities trader with five years experience could typically have made £100,000 last year, half in salary and half in bonus. A City headhunter said: "Everyone is expecting considerably less in bonus this year."

Cuts will not be across-the-board. The manager of one US investment bank's London derivatives operation said: "Good people will get higher bonuses. There will be more disparity."

One crude forecast puts bonuses at US investment banks in 1994 down between 30 per cent and 50 per cent from last year's lucrative year. "The guaranteed bonus, a feature of recruitment negotiations in 1993, is now rare."

Lowering pay may not reduce overheads enough and lay-offs are on the agenda. Both Warburg and Hambros have denied any intention of immediate job cuts. Sir Chips Keswick, deputy chairman of Hambros, said: "I am certainly not going to rush off and fire people at the wrong end of the cycle."

Salomon Brothers of the US,

S.G. Warburg has maintained its investment rating in spite of issuing a profit warning earlier this week. Standard & Poor's, the US rating agency, has assigned it a A+ rating to SGW Finance's \$250m guaranteed floating-rate notes due in 1998. The UK

which has suffered the heaviest reported losses in securities markets, has resisted lay-offs. But US investment banks such as Kidder Peabody, Lehman Brothers, Merrill Lynch and CS First Boston have announced lay-offs.

Goldman Sachs will not comment officially but insiders at the firm, until recently one of the most aggressive recruiters, speak of impending dismissals. An executive with a rival firm said: "Goldman

investment bank won the renewed grading even after this week's profits announcement."

S&P's judgment allows Warburg to maintain its claim to be the only UK house with a rating to match those of the most strongly capitalised US investment banks.

which would hire three people with the view that they would keep one, possibly hold on to another and sack the third."

The shake-out at US investment banks bodes ill for employment in the City. Mr Patrick Alexander, partner at Korn Ferry, the executive search company, said: "It is like night following day that if people are being cut in New York there will be people eventually cut in London."

Already CS First Boston has laid

off 10 employees in London, as well as 70 in New York. Lehman Brothers is proud of limiting redundancies at its 1,650-strong London office to "single figures". Several City firms said there had been a burst of CVs arriving from nervous Goldman Sachs employees.

Banks portray lay-offs as a reflection of the performance of the employee, rather than the fortunes of the bank. Most investment banks rate their employees and a declaration would involve sacking the weakest 10 per cent. A senior British investment banker said: "There are ways of doing it by aggressive quality control."

While employment in trading and sales of bonds is under pressure, other areas of investment banking such as derivatives and advice on mergers and acquisitions are health-

ier. A hopeful trader at a Japanese bank said: "They are still hiring people in derivatives."

US investment bankers set great store on training to enable staff to switch from one speciality to another as different markets rise and fall. But some feel there are limits to such flexibility. One derivatives salesman said bluntly: "People in derivatives are clever. People in fixed-income are generally not."

This year's tough conditions may, as in the late 1980s, push some people not just from their current job, but out of the industry entirely. The head of one US firm's UK operations said: "It is painful but it is just something that happens to our industry every two or three years."

Nicholas Denton

Toyota considers expansion at Derby

Toyota, the Japanese carmaker, is considering the assembly of additional derivatives of the Carina E family car range at its Burnaston plant near Derby, Kevin Done writes.

The company is expected to announce later this year that it will assemble diesel versions of the Carina range using engines imported from Japan.

It is also considering the expansion of the UK-built range of saloon and hatchback cars with the addition of an estate car.

Toyota is expected to add a second car range to its UK production operations in the second half of the 1990s, increasing capacity to 200,000 cars a year. Output is expected to be nearly 90,000 cars this year and to rise to about 100,000 next year.

Toyota expects to sell about 110,000 Carina E cars in all versions in Europe this year, of which about 80 per cent will be built in the UK.

The Japanese carmaker is facing difficult conditions in the west European car market this year with its sales falling by 4.1 per cent in the first eight months in an overall market that increased by 6 per cent.

Underground achieves 75% service in spite of strike

By Richard Donkin, Labour Staff

London Underground ran three-quarters of its train services yesterday during the 24-hour strike by members of the RMT union.

The union said last night that it was unable to estimate how many of its 7,500 members at London Underground had responded to the strike call.

London Underground was able to staff most of its services. Only one of London's 270

Tube stations had to be closed and that reopened at lunchtime.

The worst effect may have been in low passenger volumes and lost revenue because many people who normally travel by Tube made alternative arrangements. Underground managers were unable to give passenger figures. On an average day there are about 2.5 million passenger journeys on the Tube system.

The greatest disruption occurred during rush hours. In

off-peak hours, the Underground said, it managed to run nine out of 10 trains.

The union executive is to meet on Monday to decide on further action. It has asked for more talks at the Acaas conciliation service, but London Underground refuses to increase its offer of a 2.5 per cent rise.

The union has asked for a 4 per cent rise. Five other unions representing Tube workers have accepted the 2.5 per cent deal.

Rail company switches to buses

By Charles Batchelor, Transport Correspondent

One of the newly created train operating companies is to use buses for some services on one of its branch lines because of a shortage of guards.

North London Railways said the shortage was not the result of the break-up of British Rail. But its move has strengthened fears that small privatised railway companies will face operating difficulties because they are unable to call on resources from other parts of the railway network.

The train company initially announced plans to replace all

services on its Bedford to Bletchley branch line with buses so that it could assign staff to the main Northampton-London Euston services.

But yesterday it said it had reached an agreement for some guards to work 12-hour shifts instead of the more normal eight hours, maintaining a train service on the line for most of the day.

North London was caught out when 25 of the 97 guards at its Bletchley depot were successful in their applications to move to other depots.

Guards sometimes wait years for the depot of their

choice to come up. If a guard is successful in his application he is allowed to move within eight weeks, although it can take 13 weeks to train a new guard from scratch.

The shortage of guards has led to an increase in the number of train cancellations. North London said it had decided to concentrate guards on its main line, carrying 30,000 passengers a day, and to reduce its service on the branch line, which carries only 300 passengers.

North London said that even under BR it would have taken time to retrain guards from

other routes. But Mr Alan Francis, transport spokesman for the Green party, blamed the reduced service on privatisation, saying BR managers could pool staff in times of shortage.

BR said service reductions because of staff shortages were unusual, and the last time this happened was six or seven years ago.

North London said its temporary timetable involving buses would last until November 21, when it would resume a full train service.

It said 43 new guards had been recruited or were being trained.

Rover counts up the benefits of surging productivity

David Goodhart assesses the pay deal which may set a motor industry benchmark

Since 1992 when Rover Group agreed its "new deal" - giving workers job security and single status in return for much greater flexibility - it has been hailed as a model for Britain's new co-operative industrial relations.

Following yesterday's generous two-year deal - giving up to a 10.7 per cent pay rise over two years - it may also become known as the benchmark for motor industry pay bargainers, at least for trade union negotiators.

That role used to be played by Ford - most famously with its 13.4 per cent rise at the end of 1990. But Rover, with its

surging output and exports, is now challenging Ford.

Part of the pay rise is a direct consequence of the 1992 deal. The introduction of single status - the ending of all status distinctions between blue and white-collar staff - was started only in 1992. This pay deal takes it a lot further.

Instead of 11 grades - six for white-collar staff and five for manual workers - there will be just three for all staff. The A grade will cover lower skilled manual and clerical workers, with average basic pay of

£28,450 per week. The B grade will cover skilled craftsmen and more qualified white-collar staff such as accounts clerks, with average basic pay of £31,185. The C grade covers team leaders and design engineers, with an average salary of £17,997.

Different groups receive different sums for agreeing to these changes and some receive nothing at all. But the extra payments for this regrading accounts for the different interpretations of the deal. The company stresses that the 3.7

per cent pay rise in 1995 and 4 per cent (or inflation) in 1996 while the unions insist that for many people the deal is worth 10.7 per cent.

Many managers in the car industry are sceptical about the benefits Rover has gained from its new deal. Many more - especially in the west Midlands - will be cursing the Rover Group for setting a high pay benchmark. The current Jaguar negotiations, for example, seem likely to be affected.

But whatever the scepticism, Rover can point to some remarkable productivity improvements. At Cowley, Oxford, for example, productivity has increased 30 per cent over the past two years. Overall productivity is up only 14 per cent in that period, but that is partly because of the difficulty in improving productivity at labour-intensive Land Rover.

The Rover management can also point to the fact that they are paying wages according to the performance textbook. When the company was in

trouble in 1993 it had a six-month pay freeze. Now that it is doing well it is allowing a pay catch-up.

In other words it is pay, rather than jobs, that is taking most of the strain of market fluctuations. Since 1992 the company has stuck to its commitment not to make anyone compulsorily redundant. Notwithstanding that commitment the company has still had some flexibility, with a reduction of nearly 10 per cent in employee numbers between 1991 and 1993.

Since then job numbers have been rising and, unlike many other carmakers, Rover has been taking people on open-ended contracts rather than temporary contracts.

One economist with a leading employers' organisation said: "When productivity is rising as fast as it seems to be at Rover, then both workers and customers can benefit. In the past in the motor industry productivity deals have either been bogus or most of the benefit has simply returned to the workers with little or nothing going to customers in lower prices."

Sorrows drown in £50 bubbly

Profits may be down and the markets bearish, but the bubbly was still flowing in the wine bars of London's financial centre this week.

"There is champagne being drunk, and people are still here past eight on a weekday evening," said a Lloyd's reinsurer broker, who was certainly accurate about Corney and Barrow's wine bar in the City's Leadenhall market. "I think it is hard to look at two isolated incidents of Warburg and Hambros doing badly and suddenly say the entire City is nervous about its jobs."

He shrugged and poured a generous glass of champagne for his companion. "But I'm in insurance so I couldn't say how it is over in the big banks."

At Broadgate Circle, the heart of the City's banking district, the mood in the watering holes was no less cheerful.

A trader at a Japanese bank quipped as he sank a beer: "If you think this is hopping, you should see the places where everyone has moved on to."

He said the profit warnings issued last week by S.G. Warburg, the investment bank, and Hambros, the merchant bank, appeared dismal only when compared with the previous year's performance. "Last year was not normal," he said. "The average person does not generate \$10m revenue a year, but now that he is only making \$2m, suddenly everyone says it's a tragedy."

If anything, the misfortunes of Warburg and Hambros elicited smirks rather than signs of anxiety. "They made their money too easy last year," said a trader in the structured finance department of Bank of Scotland, who was relaxing with colleagues at The Arbitrator on Throgmorton Street. "They made their money for turning up at work."

Under the influence of office sobriety, financiers admitted that the profit warnings could signal tighter times. A derivatives risk manager at J.P. Morgan said: "Last year it was easy to hire a mediocre risk manager because it was such an easy market to trade. What you will see after bonuses are paid is that a two-tier system will develop."

He said banks would continue to hire and pay "quality" people well but, he added: "What I am hearing around is that people are getting rid of the bottom 10 per cent of performers as they are rated internally."

So it is curtains for ski holidays, Christmas bonuses and magnums of champagne?

The revelers at Corney and Barrow in Broadgate scoffed as they ordered more champagne. A trader at a UK bank said: "At the end of the day people who work in this industry make a lot more money than people in any other business. So if they have a bad day and do not make a million, it's not as if buying another bottle of Moët for £50 is going to be a problem."

Motoko Rich

Modernisers cap the party with a jazzy end

By James Blitz

Few believed a Labour party conference would ever end like this. Delegates stared in disbelief as a team of colourfully clad musicians burst through a side entrance of the Winter Gardens, sauntered up to the platform and proceeded to pump out New Orleans jazz.

Before they prepared to sing the Red Flag, Mr Tony Blair's party clapped along to the Dixieland numbers. And to cap it all, Mr John Prescott, the deputy leader, executed a neat jive with his wife on the conference platform, receiving some of the loudest applause of the week.

As a historic conference drew to a close many delegates were delighted to see Mr Blair's "New Labour" party openly enjoying itself, match-

ing the Tory reputation for *jolie de vivre*, looking to viewers at home like a member-friendly party.

But for many leftwingers the images at this conference - the greenish backdrop, the questioning of Labour's basic beliefs, the leader's smart-suited aides clutching portable telephones - have left a sense of unease.

With Dixieland music still ringing in his ears, Mr Leigh Richmond, a 26-year old delegate from Peckham, asked a question that has been on many lips this week: "Where on earth is the Labour party going?"

As they hurried to leave Blackpool yesterday it was the so-called "modernisers" - the men and women who back Mr Blair's campaign to unthrottle Clause 4 and the commitment to common ownership

- who had the clearest answer.

Yes, the delegates' decision to reassert the cherished commitment to nationalisation had been a setback for Mr Blair. The conference had defied his call for a revision of the constitution and had brought his post-election honeymoon to a close.

But this did not reduce their delight that Mr Blair is now taking on the dinosaurs of the left.

Mr Mike Gapes, MP for Ilford North, said: "I left last year's conference with pessimism. I felt then that we weren't progressing anywhere. Now I believe we are moving forward and changing the party for the better."

For the activists on the left of the party it was very different. As they prepared to go home the anger over Clause 4 had not been allayed.

Mr John Macintyre, president of the Manufacturing and Science Federation, said: "Tony Blair made a tactical mistake by raising the issue. There was simply no need for him to make that reference in the speech."

Indeed, criticism was not hard to find. "A disastrous week," was the verdict of Mr Bill Stevens from Plymouth and Sutton. Mr Tom Farnhill, a 20-year-old delegate from East Devon, said: "He couldn't have chosen a worse time to raise this issue."

Another delegate said: "In the next few months this could seriously split the party."

As he sets about revising the constitution Mr Blair knows that he has the upper hand because the hard left of the party is losing ground. One leftwing MP said there were many like himself who believed that their best hope now was to take up the challenge Mr Blair had set them, redefining "common ownership" in a modern context.

He said: "Our slogan has to be: 'New Britain, New Labour, New Left'."

Like some delegates, he believed Mr Peter Hain, the MP for North, could play a prominent part in developing the theme.

But even some of the leader's closest supporters expressed concern that change was being driven too fast.

One rightwing MP privately admitted that Mr Peter Mandelson, the party's former campaign director and a close aide to Mr Blair, had abused the unions too much at the conference and could sow divisions.

As they left Blackpool many delegates believed that next year's conference would bring this week's divisions - over Clause 4, the minimum wage and full employment - to a head. But they also knew that Mr Blair and Labour have set a formidable challenge.

Firmer line on media urged

By Roland Rudd

The Labour leadership came under pressure from delegates to make a firmer commitment to break up media monopolies and introduce regulation guaranteeing the freedom of a pluralistic press.

Ms Mo Mowlam, shadow heritage secretary, said while cross-media ownership was a fact of life, a future Labour government would "regulate both nationally and regionally to prevent media monopolies and protect the future of public service broadcasting".

A succession of speakers in the debate urged the leadership to go further and draw up a "clearer policy on media ownership".

Ms Maggie Lee, from North Norfolk, said: "If democracy means anything to Labour it must mean an informed democracy. We need to spell out where the party stands on this issue. We need proper newspaper regulation in an attempt to break up the monopolies."

The concentration of media ownership in Italy was cited by some delegates as an example of what could happen in the UK if the present situation was left unchanged. There were also calls to prevent "media barons" such as Mr Rupert Murdoch using profits from television interests to help cut the price of newspapers "to put others out of business".

Bectu, the broadcasting union, said there was a need to preserve and promote European public-service broadcasting in the face of competition from weakly-regulated private-sector satellite television channels.

Ms Mowlam said the parliamentary Labour party would continue to campaign against moves to further deregulate the media industry.

Delegates overwhelmingly backed a call to reconfirm the party's commitment to public-service broadcasting and to prevent any future moves to deregulate the industry.

Blair's control of executive is reaffirmed

By Ivor Owen, Parliamentary Correspondent

Mr Tony Blair's authority over the party was underlined when the conference decisively rejected an attempt to reassert its own dominance over the national executive.

The growing isolation of his card vote resulted in a resolution reaffirming the conference's "unique position" being defeated by 72.7 per cent to 27.3 per cent.

In the most controversial debate of the final session constituency activists loudly cheered complaints by some delegates that the views of the conference on the retention of Clause 4 in the party's constitution were being ignored.

Ms Christine Bowden, from Hove, protested that a motion passed by the conference on Monday had been "overturned" by Mr Blair when he called for a review of the constitution in his speech the following day.

She said: "Conference is our voice - listen to it Tony Blair."

We don't come here to bask in reflected glory."

Ms Bowden deplored the "setback for Blair" headlines earlier in the week when the conference narrowly voted in favour of retaining Clause 4. "Company directors don't describe shareholders' decisions as a 'setback'," she said.

To further applause, Ms Bowden said that it was the constituency activists who did the "door stepping" and lived in the same world as the electorate with which the party had lost touch in recent years.

Ms Agnes Davies from Cumnock, Carrick and Doon Valley said: "I have no intention of coming to a conference when the decisions about what is going to happen have already been made."

In a clear response to the anxieties of some delegates, Mr Larry Whitty, in his final speech as the party's general secretary, urged the leadership to remember "you have to take the people with you".

He highlighted the importance of the party's links with the trade unions.



Deputy leader John Prescott said that the policy statement to be submitted to the national executive committee by him and Tony Blair would "ignite the public with enthusiasm for our beliefs". He added: "We will set out afresh our values and explain them in a language that everyone can understand"

Leaders lay plans for parliament

By Kevin Brown, Political Correspondent

The Labour leadership left the Blackpool conference yesterday planning a radical overhaul of the party's parliamentary activities to sustain the momentum of Mr Tony Blair's modernisation drive.

Mr Blair, who believes that the conference has changed the nature of the Labour party, has told friends that he will refuse to "follow the government agenda" when MPs return to Westminster this month after the summer break.

He believes Mr John Major's government can be unsettled by more imaginative use of Labour's parliamentary rights, and better attendance by Labour MPs.

The campaign will start with

a shake-up in the frontbench team, including the shadow cabinet, to give talented younger MPs more opportunity to shine.

But the focus will be on Mr Blair's performance at prime minister's question time, the twice-weekly ritual intended to allow MPs to hold Mr Major to account.

Mr Blair believes he can rattle Mr Major by avoiding the formulaic approach of most recent opposition leaders in favour of a more unpredictable strategy.

Allies say he intends to illuminate Labour's political approach rather than merely seek to exploit government embarrassment on topical issues.

Mr Blair may also decide to ask a single question occasion-

ally, rather than the often repetitive ration of three to which custom entitles him.

The change of parliamentary tactics is part of a series of measures intended to put fresh life into Labour's image, which party strategists believe has put off voters.

The revised approach was signalled as the conference drew to a close and Mr John Prescott, the deputy leader, promised that the leadership would "put a smile on the face of our politics".

As delegates prepared for the ritual singing of The Red Flag - assisted this year by primed songsters to avoid embarrassing stumbling over the words - Mr Prescott called for an end to "dreary meetings" attended by half a dozen members. Launching a recruitment

drive intended to raise membership from 290,000 to 500,000 in two years he told delegates: "There is more to Labour than committees and committees."

In a witty speech largely delivered from notes - unlike his barnstorming end-of-conference speech on one-member-one-vote last year - he told delegates to "stop speaking the language of the past and start practising the politics of the future".

Mr Prescott warned against complacency, but said the Conservatives were "running scared" of a Labour party which had learned its lessons and was again hungry for power.

"Tony Blair is leading a party which is reaching out to people and inspiring them with a new politics," he said.

Delegates urged to remember history

Mr Larry Whitty, party secretary, urged delegates to "remember your history".

He said in his last speech to a party conference as general secretary: "Remember the history of the broader Labour movement and the trade union movement. Remember those people who through the bad years have voted for you through bad times and through good."

"And remember that in progress in life and in politics you have to take the people with you. And in that context let us always remember that the trade union base of this party is its greatest strength and not its weakness."

People did not join the party because of what was said at conference or because of a slogan or a logo, said Mr Whitty. "They join because they are angry. They join because they want change. And we can redraft our aims and constitutions as much as we like - and I believe we should. But the essence of this party is that it stands for radical, redistributive change within our society."

He warned that the party and the unions had to move together "otherwise we fail together".

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☐ 99 Other (Please state _____)

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☐ 3 Overseas Deposits

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☐ 5 Bonds

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☐ 99 None

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☐ 99 None

| FT-SE Actuaries Share Indices - Quarterly Valuation | | | | | |
|---|---------------------------------|----------------------|---------------------------------|----------------------|---------------------------------|
| | Market cap. as at 30/09/94 (£m) | % of All-Share Index | Market cap. as at 30/09/94 (£m) | % of All-Share Index | Market cap. as at 31/12/93 (£m) |
| FT-SE 100 | 498,500.00 | 71.31 | 479,200.00 | 71.20 | 563,284.99 |
| FT-SE Mid 250 | 149,100.00 | 21.33 | 144,300.00 | 21.47 | 157,510.88 |
| FT-SE Mid 250 ex. Inv. Trusts | 132,700.00 | 19.59 | 125,500.00 | 19.13 | 141,007.05 |
| FT-SE A 250 | 647,600.00 | 92.84 | 622,500.00 | 92.67 | 710,795.87 |
| FT-SE SmallCap | 51,400.00 | 7.38 | 48,200.00 | 7.23 | 48,244.70 |
| FT-SE SmallCap ex Inv. Trusts | 43,400.00 | 6.21 | 41,600.00 | 6.18 | 38,081.74 |
| FT-SE A ALL-SHARE | 895,043.65 | 100.00 | 871,937.40 | 100.00 | 757,040.57 |
| 10 MINERAL EXTRACTION (18) | 62,185.63 | 6.95 | 60,039.15 | 6.89 | 59,209.30 |
| 12 Extractive Industries (9) | 10,732.82 | 1.24 | 10,085.60 | 1.50 | 10,288.19 |
| 15 Oil Integrated (5) | 46,776.83 | 5.24 | 45,530.05 | 5.24 | 45,379.15 |
| 18 Oil Exploration & Prod (11) | 4,675.88 | 0.52 | 4,423.50 | 0.57 | 4,291.86 |
| 20 GEN MANUFACTURES (289) | 140,954.30 | 15.75 | 140,705.31 | 16.03 | 146,208.27 |
| 21 Building & Construction (53) | 8,088.92 | 0.90 | 8,400.20 | 0.96 | 8,562.48 |
| 22 Building Materials & Merchs (52) | 20,495.98 | 2.29 | 20,275.63 | 2.33 | 23,199.21 |
| 23 Chemicals (23) | 18,846.08 | 2.11 | 18,381.84 | 2.11 | 18,921.21 |
| 24 Diversified Industrials (18) | 34,261.94 | 3.83 | 35,058.37 | 4.02 | 37,842.39 |
| 25 Electronics & Equip (24) | 15,326.53 | 1.71 | 15,121.78 | 1.73 | 16,800.06 |
| 26 Engineering (73) | 25,738.37 | 2.88 | 25,058.32 | 2.88 | 26,359.15 |
| 27 Engineering, Vehicles (12) | 6,782.01 | 0.75 | 6,270.48 | 0.72 | 6,893.08 |
| 28 Printing, Paper & Pack (26) | 11,397.08 | 1.27 | 10,912.83 | 1.25 | 10,198.37 |
| 29 Textiles & Apparel (23) | 4,122.24 | 0.46 | 4,225.46 | 0.48 | 4,890.36 |
| 30 CONSUMER GOODS (87) | 125,477.15 | 13.99 | 121,026.75 | 13.91 | 140,876.28 |
| 31 Breweries (17) | 12,875.47 | 1.43 | 12,544.50 | 1.43 | 13,727.31 |
| 32 Spirits, Wine & Ciders (10) | 24,996.99 | 2.79 | 24,202.76 | 2.79 | 26,737.06 |
| 33 Food Manufacturers (23) | 25,043.75 | 2.80 | 23,288.98 | 2.68 | 27,007.58 |
| 34 Household Goods (13) | 4,806.49 | 0.54 | 4,458.43 | 0.51 | 4,859.94 |
| 35 Health Care (21) | 44,106.75 | 4.93 | 40,814.42 | 4.68 | 47,788.19 |
| 37 Pharmaceuticals (12) | 13,432.93 | 1.50 | 12,254.00 | 1.40 | 17,038.73 |
| 38 Tobacco (1) | 1,118.11 | 0.12 | 1,105.69 | 0.13 | 1,715.54 |
| 40 SERVICES (221) | 138,555.32 | 15.48 | 135,219.32 | 15.48 | 148,426.99 |
| 41 Distributors (31) | 8,967.76 | 1.00 | 7,295.11 | 0.84 | 7,553.22 |
| 42 Leisure & Hotels (25) | 18,182.56 | 2.03 | 17,888.92 | 2.03 | 18,972.18 |
| 43 Media (3) | 26,112.46 | 2.92 | 24,571.83 | 2.80 | 26,892.79 |
| 44 Retailers, Food (16) | 20,549.20 | 2.30 | 19,155.08 | 2.19 | 20,339.58 |
| 45 Retailers, General (45) | 38,566.56 | 4.31 | 36,730.98 | 4.21 | 44,788.57 |
| 46 Support Services (41) | 9,279.07 | 1.04 | 8,140.12 | 0.93 | 10,045.12 |
| 47 Transport (18) | 17,775.29 | 1.98 | 17,226.19 | 1.97 | 20,211.21 |
| 51 Other Services & Business (9) | 1,118.11 | 0.12 | 1,105.69 | 0.13 | 1,715.54 |
| 60 UTILITIES (59) | 95,011.10 | 10.61 | 87,872.26 | 10.08 | 108,572.24 |
| 62 Electricity (17) | 30,769.94 | 3.44 | 27,852.08 | 3.19 | 31,690.04 |
| 64 Gas Distribution (2) | 13,407.84 | 1.50 | 12,990.95 | 1.49 | 15,311.57 |
| 66 Telecommunications (4) | 38,200.31 | 4.27 | 37,300.34 | 4.28 | 41,394.35 |
| 68 Water (13) | 12,593.21 | 1.41 | 11,028.91 | 1.26 | 14,178.48 |
| 70 NON-FINANCIALS (338) | 555,188.48 | 62.14 | 545,002.41 | 62.51 | 603,821.08 |
| 71 FINANCIALS (104) | 107,716.07 | 12.00 | 102,491.03 | 11.76 | 128,834.41 |
| 72 Banks (10) | 59,418.80 | 6.64 | 56,941.91 | 6.49 | 75,656.04 |
| 73 Insurance (17) | 14,368.01 | 1.61 | 13,450.48 | 1.54 | 17,887.01 |
| 74 Life Insurance (8) | 9,754.72 | 1.09 | 9,365.17 | 1.07 | 11,566.35 |
| 75 Merchant Banks (9) | 4,847.77 | 0.54 | 4,524.27 | 0.51 | 5,761.46 |
| 77 Other Financial (24) | 13,647.02 | 1.53 | 14,048.87 | 1.60 | 14,578.84 |
| 79 PROPERTY (41) | 25,139.30 | 2.81 | 23,203.06 | 2.67 | 24,385.10 |
| 80 INVESTMENT TRUSTS (124) | 69,043.85 | 7.72 | 67,189.40 | 7.70 | 75,040.57 |
| 88 FT-SE A ALL-SHARE (898) | 895,043.65 | 100.00 | 871,937.40 | 100.00 | 757,040.57 |

Figures rounded due to slight pricing inconsistencies.

Richard Waters on moves to improve profitability at US investment bank Kidder Peabody Parachutists on a mission

Who would buy an investment bank with a tattered reputation, bloated costs, an over-inflated balance sheet and a trunk-load of esoteric securities that few people understand?

That is the question posed by other banks in response to General Electric's thinly veiled desire to jettison Kidder Peabody, its troubled New York investment bank.

On Thursday, the US industrial group took action to make Kidder a bit more saleable. Six months after it was rocked by an alleged multi-million dollar fraud (Kidder claimed its head government bond trader, Joseph Jett, had created fictitious profits of \$350m), the bank is undergoing an overhaul. The result will be a smaller and - GE hopes - more profitable bank.

The overhaul is being conducted by two GE executives parachuted into Kidder in June to salvage its reputation: Mr Dennis Dammerman,

GE's own chief financial officer, and Mr Denis Nayden, a leading executive from GE Capital, its financial services arm.

For Jack Welch, GE's chairman and chief executive, the changes at Kidder come not a moment too soon. Having paid \$600m for an initial 80 per cent stake of Kidder in 1988 and pumped in another \$800m in extra capital since then, Welch's judgment has met with increasing criticism.

Kidder's new bosses are attacking the problems at the bank on four fronts.

First, they plan to shrink the bank's balance sheet. Under Mr Michael Carpenter, the chairman ousted in June as a result of the Jett scandal, Kidder had expanded its holdings of securities, pushing its total assets to \$106bn (\$67bn) at the end of March. The bank had only about \$750m of capital to support these assets (the capital acts as a cushion to absorb any losses).

While bond prices were rising around the world in the early 1990s, Kidder's vast securities holdings generated profits. The bank could underwrite an issue of new bonds, and hold the securities on its balance sheet for several weeks or even months as it slowly sold them to investors. The downturn in bond prices since last October, though, put an end to the easy money days for Kidder, as for the rest of Wall Street.

Piling assets on a small capital base produced high leverage, which increased market fears in recent months about the bank's financial stability. Other big Wall Street firms have about \$1bn of capital for every \$30bn-\$35bn of assets they hold, says Mr Michael Flanagan, a securities industry analyst at Lipper Analytical, the financial research firm.

Since March, Kidder has shrunk its assets to \$80bn. This week, it said it easier to bring the level down to \$50bn-\$60bn by the end of this year. More seems likely to follow.

Mr Dammerman has said that he wants to bring Kidder's balance sheet leverage into line

with other Wall Street houses. To achieve this means shedding assets unless he can persuade GE to pump in more capital (which is unlikely, as GE has already injected \$200m this year).

The new Kidder bosses' second line of attack is to transfer \$6.7bn of esoteric securities, known as Collateralised Mortgage Obligations (CMOs), to an affiliate of GE Capital. Mortgage-backed bonds, and the derivative-type CMOs that can be created from them, have been the source of a large part of Kidder's profits in recent years. However, the rise in US interest rates this year - and the corresponding fall in bond prices - has hit the CMO business particularly hard: buyers for the highly-structured securities have vanished, making many of them hard to sell or to value.

Kidder has already sold off about \$10bn of CMOs since March. Shuffling the rest to GE Capital should remove a

big question mark over the bank and relieve pressure on its balance sheet.

The third move by Dammerman and Nayden is to take an axe to Kidder's costs in an attempt to bring it back into profit - the bank is thought to have lost \$85m in the three months to the end of September. Among

the things, the disappearance of \$350m of profits after the Jett fiasco revealed that Kidder's real profits were lower during Wall Street's good years than had appeared at the time.

The immediate target is to shed 10 per cent of Kidder's 5,500 staff and reduce costs by \$100m a year. The bank has said it will narrow the scope of its investment banking activities to a handful of industries. It is also expected to retreat from a number of business areas, such as some parts of its derivatives trading and foreign exchange activities.

Fourth, the new management has indicated that it could sell those parts of Kidder for which buyers can easily be found. The bank's 1,250-strong force of retail brokers, for instance, is considered an attractive catch by several rival brokerage houses. With average annual commissions paid by the bank to be \$425,000, Kidder's brokers are more productive than those at houses such as PaineWebber, which is contemplating an acquisition. Kidder's fund management business is also considered a candidate for early disposal.

Dammerman, meanwhile, has remained vague about whether what remains of Kidder would eventually be sold. Announcing the staff cuts this week, GE's chief financial officer acknowledged that outsiders would interpret such measures as an attempt to spruce up the bank for sale. That was not the immediate purpose, he added; rather, it was to put the bank into order.

What is undoubtedly true is that it will be a lot easier to sell what remains of Kidder once it has been slimmed down and refocused. GE will soon have the option of getting out of its disastrous excursion into Wall Street.



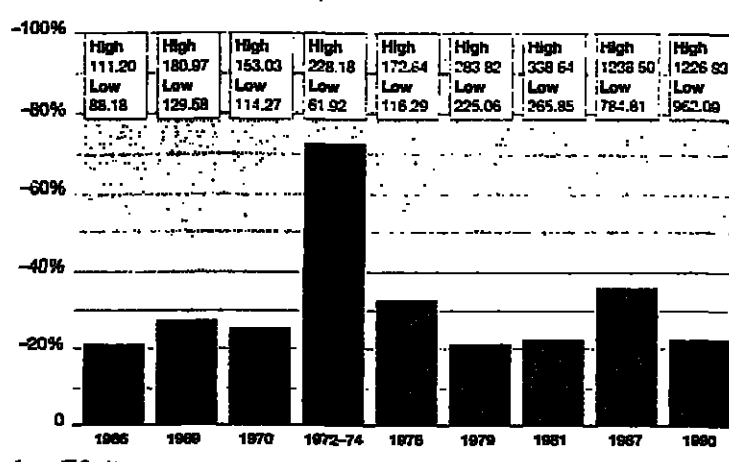
Jack Welch: his judgment has been criticised

Good news is bad for shares

Philip Coggan explains why London stocks are less than buoyant

FT-SE-A All-Share index: the bear years

Bear market defined as a market drop of 20% or more



Source: FT Graphics

investors, in particular, were putting money overseas, with many using money borrowed at historically low interest rates.

The bubble burst in February 1994 when the Federal Reserve made its first upward move in interest rates. Although the change was small - from 3 per cent to 3.25 per cent - it caused a much larger shift in investor sentiment worldwide.

If the Fed was tightening monetary policy, investors reasoned, maybe inflation was going to be a problem in the US. Furthermore, signs of growing economic recovery in Europe made investors worry about inflation and less confident about further declines in European interest rates.

The rise in commodity prices added to the worldwide surge in inflation expectations.

Those US investors who were speculating with borrowed money quickly tried to cash in their bond holdings to cut their losses. Bond prices fell sharply and stock markets suffered from the knock-on effect.

The UK suffered more than most from the switch. According to Yamachi International (Europe), 10-year UK gilts yielded 0.47 of a percentage point more than US Treasuries at the start of the year and 0.74 of a percentage point more than German bunds. Those spreads have since widened to 1.11 percentage points and 1.27 percentage points respectively.

If inflation is set to return around the globe, investors fear that its level will be higher in the UK, because of the country's past record. "People have been deeply ingrained with the view that it is always right to be pessimistic about the UK," says Mr Bob Semple, head of economics and strategy at NatWest Markets.

February's cut of a quarter of a percentage point in UK base rates, which came just four days after the Fed increased US rates, may have reinforced the impression that the UK was soft on inflation, and raised doubts about the strength of the UK's monetary regime. "It is clear that the Bank of England had its arm

twisted to agree to a rate cut in February," says Mr Semple. Since that February cut in rates, the pace of UK economic growth has picked up, prompting the chancellor to agree to a rise of half a percentage point in base rates in September, to head off inflationary pressures.

But the markets have yet to be convinced that the UK authorities are in control, and remain pessimistic about the outlook for base rates. Futures markets indicate that traders expect base rates to reach around 6.7 per cent by year end, and nearly 9 per cent by the end of 1995.

So although economic growth, by boosting corporate earnings, ought to be good for the equity market, its benefits have been overshadowed by the rise in inflationary expectations, which have led to higher bond yields.

For the international investor, the news has been even worse. Sterling's decline this year means that, in US dollar terms, the UK market has underperformed every major European stock market except France. Is the poor performance of the UK

equity market set to continue? This year's declines have removed some of the signs that shares were overvalued. The historic price-earnings ratio on the All-Share - the measure used by analysts to compare share prices to corporate profits - has dropped from a steady 25.8 in February to around 17.5 today.

The dividend yield on the All-Share is a fraction over 4 per cent, below its long-term average, but well above the 2.8 per cent reached at the height of the bull market in 1987.

Furthermore, dividends offer a positive real return (they are higher than inflation) - a situation that has existed only rarely in the last 20 years.

The yield ratio, a measure that relates the income return from long-term gilts to that from equities, is around 2.2, close to its average since 1976. According to Mr Ian Harnett, chief economist of Societe Generale Strauss Turnbull Securities, this can give investors some comfort since the last three severe market downturns have occurred when the yield ratio was over 2.5.

However, for the UK market to recover, it needs to circumvent three obstacles. The first is the danger that inflation may accelerate, and the trade position may deteriorate, just as it has in so many previous UK economic cycles. The result will be sharply higher base rates and bond yields - more bad news for share prices.

The second danger is that the government had already acted too hastily in raising interest rates, especially in view of the tax increases to come. The consequence is that economic growth, and corporate earnings, will slow in 1995.

The final risk lies across the Atlantic. The UK stock market has fallen further than the US, but many feel it is Wall Street and not London which is the anomaly. If further Fed tightening and a change of sentiment among US private investors causes a sharp fall in the Dow Jones Industrial Average this autumn, UK investors could be due for another bungee ride.

The ultimate privatisation

Clive Cookson on who should own human genes

The British Labour party conference was not the only place where people were arguing furiously this week about private versus public ownership. The international meeting on human genes in Washington DC was equally divided by debate over whether genetic information should be freely available in the public domain, or the private property of the researchers who patent it first.

Each side claims that its favoured system will accelerate the application of genetic discoveries to human health, in the form of treatments for diseases from cancer to mental illness. Arguments over gene ownership have bedevilled biotechnology and medical research for several years. They are now reaching a new intensity, as scientists realise how much the private sector is coming to dominate the race to discover the 100,000 genes which control human development and susceptibility to disease.

The biomedicine research leaders who launched the grandiose Human Genome Project in the late 1980s as a \$2bn international effort to decode all DNA (the chemical store of genetic information) expected it to take about 15 years and to be funded largely by governments. In fact biotechnology companies, in partnership with the established pharmaceutical industry, are spending more on genetics research than the traditional public bodies such as the US National Institutes of Health and the UK Medical Research Council - and, by taking scientific shortcuts, they are producing results more quickly.

However, the debate is not simply between academic and industrial researchers. Within each group, opinions are divided on the merits of patenting genes, as two of the world's largest drug companies, Merck and SmithKline Beecham, showed this week when they announced diametrically opposed policies on the issue.

Merck said it would establish a comprehensive database of genetic information to which everyone, including commercial competitors, will have open access. The company will provide several million dollars for Washington University in St Louis, one of the top US genetics labs, to create new data for the so-called Merck Gene Index.

"This will facilitate progress in biomedical research by reducing duplication of effort, speeding the identification of disease-related genes and enhancing the probability of breakthrough drug discoveries," says Dr Edward Scolnick, Merck's head of research.

Although the company's announcement was couched in terms of self-congratulatory altruism, some competitors saw it as more of a spoiling move to make up for the fact that Merck had been slow to appreciate that genetic discoveries could transform pharmaceutical research.

On the other hand SmithKline Beecham, until recently one of the sleeper pharmaceutical giants, has moved astonishingly quickly to feed genetic information into its main-

stream research since linking up with Human Genome Sciences, the leading biotech company specialising in gene discovery, in May 1993. SB is paying HGS \$125m over 10 years for an equity stake and exclusive access to its private database, which already contains partial or complete DNA sequences of about one-third of all human genes.

The key to HGS's success is a scientific short-cut called cDNA sequencing. This fishes out from particular body tissues, such as the brain, pieces of DNA corresponding to genes that are active there. It gives a library of gene fragments written in the four letters of the genetic code - C A T G - rather like an index of first lines in a poetry book. Most sequences are distinctive enough for scientists to understand their meaning.

In Washington this week SB and HGS made clear that they had no intention of allowing others unrestricted access to the database, which they believe gives them a huge competitive advantage for future product development. At the same time they revealed the terms under which academic researchers would be allowed to use the database. The main condition is that HGS will have first rights to exploit any patentable discovery they make.

"The conditions that govern access to these data should preserve the incentive for the private sector to invest the

funds necessary to bring new drugs and diagnostic products to the market," says Dr William Haseltine, HGS chief executive. "Unfettered dumping of genetic information into the public sector is not in the best interests of the public."

Dr Michael Morgan of the London-based Wellcome Trust, the world's largest medical research charity, brought together all interested parties in a fringe meeting at this week's Washington conference, to try to work out a consensus for future action.

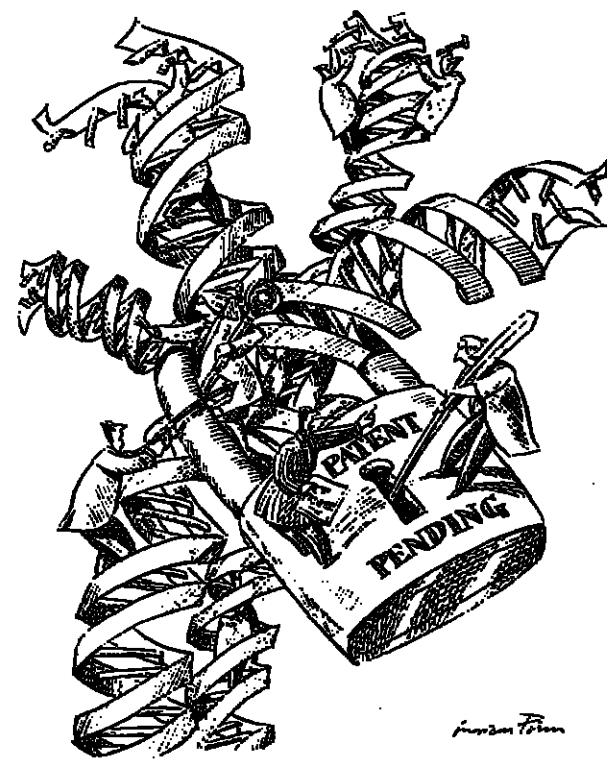
"The HGS/SB proposal may well be acceptable to academia, though we shall have to study the terms carefully," Dr Morgan says. "But they are not giving access to the pharmaceutical industry, so there is enormous support from the other drug companies for a public domain database."

Dr Morgan says his meeting agreed that Merck's proposal should form the basis of an open international effort to identify as many individual genes as possible and "map" the position of each gene on one of the 23 chromosomes that carry all human DNA. The mapping stage is essential for understanding fully how the genes work.

Glaxo, the largest UK drug company, would be happy to join in too, says Dr Barry Ross, research director. "If this can be developed into a full partnership between industry and academia, rather than something run by Merck with the Merck name on it."

Everyone involved in genetics research agrees that patent protection is needed at some stage to provide the financial incentive for companies to turn the science into products. The contentious question really is: at what point in the

Patent protection is needed at some stage to provide companies with a financial incentive



R&D process should patents take effect to end the sharing of public information and stimulate product development?

SB, HGS and other biotechnology companies whose competitive advantage is in creating genetic information want patents to take effect as early as possible. Merck, Glaxo and other large drug companies believe that patents should not operate "until you have a gene-based product to protect", as Dr Ross puts it.

Academics' views depend mostly on whether they are involved with biotech companies seeking to exploit genetic information. Last month's decision by the University of Utah and Myriad Genetics, a US biotech company, to patent their discovery of a gene causing breast cancer provoked a hos-

tile reaction from researchers who said it would destroy future collaboration in the search for cancer genes.

Overshadowing the debate is confusion about the way patent law applies to genetic discoveries. Rules by the US Patent Office and its European counterparts have been contradictory and not yet tested in court. It will not be known for many years what level of genetic information can be protected. Will it be a fragment of a gene, the full human gene, or the gene incorporated into a potential product?

Wherever the line is eventually drawn, it is already clear that the old academic ideal of open scientific collaboration unmotivated by commercial gain is as out of date as the Labour party's Clause 4.

Quick switch to the attack

From Sir Peter Wakefield. Sir, We are all entitled to change our opinions, but your art critic, William Packer, seems to have been persuaded to change his extraordinarily quickly.

In his account of the Jerwood Painting Prize ("Damned by lack of controversy", September 24), he attacks most vehemently the decision of the judges to award the prize to Craigie Aitchison. Yet only two weeks earlier he welcomed the purpose of the prize ("Excellence is the only criterion", September 10), saying it was long overdue and "what a relief it is to confront a short-

list that is entirely acceptable. There is no token presence and each artist has a chance of winning - well worth a punt".

William Packer is also inaccurate in saying that one of the judges, Judith Collins, is deeply distressed. The choice was accepted by all the judges except Hilton Kramer, who has made his views known. Peter Wakefield, chairman of the judges, Jerwood Painting Prize, Jerwood Foundation, 22 Fitzroy Square, London W1P 5BJ

Uncertainty over a semitone

From Mr Michael Varcoe-Cocks. Sir, In his review of Opera North's new *Il Trovatore* ("Outbreak of symbolism in Leeds 'Trovatore'", October 4), Richard Fairman writes disparagingly of the tenor's high notes in the famous cabaletta being "high B rather than Cs, if I am not mistaken".

On the one hand your critic is admitting that he does not have perfect pitch (a rare gift

anyway), but on the other he is implying that he is clever enough to tell that the cabaletta was sung a semitone lower than written.

Surely, if he felt it necessary to make this point, Fairman could have swallowed his ignorance and actually asked someone at Opera North! M D Varcoe-Cocks, 5 Brackenbury Road, London W6 0BE

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Merger of accountancy bodies inevitable

From Mr R N Chisman.

Sir, Your article, "An institutional fracture in need of repair" (Accountancy Column, October 6), on the rationalisation of the accounting profession misses the point.

It would be obvious to a Martian that the six bickering representative organisations ought to be merged into a single influential professional body. However, the main obstacle to this is the widely held belief that the members of the three chartered institutes

will not vote for a merger - even when watered down as in the proposals recommended by the working party, chaired by David Bishop of KPMG Peat Marwick. And the reason they will not vote to merge is the general perception that the title "chartered accountant" carries more status and earning power than the titles from the other bodies. There is a desire for some to be seen as more equal than others.

Faced with such intransigence it would be folly for the other bodies to formulate plans for the improvement of the profession based upon the highly improbable premise of a merger. The other bodies cannot address this obstacle in the short term and the only practical approach is to plan round it and to make alternative proposals such as those formulated by Anthea Rose and the Chartered Association of Certified Accountants.

Common sense will eventually triumph - you are either a qualified accountant or you are

A new millennium - and not a traffic cone to be seen

From Mrs A Lister.

Sir, With regard to celebrating the millennium ("Wanted - wonder of the age", October 1), I think the government should pledge to remove every single traffic cone from every road in the kingdom by 4.30pm on December 31 1999.

In order to placate all those who believe that celebrations should only take place in December 2000, I suggest that, during the intervening year, all the cones gathered should be given to a number of sculptors, who can each create a fitting memorial to the "last"

century. These sculptures should be placed at various points around the country, to be seen from our motorways, rather as Stonehenge is viewed from the A303.

This pledge, incidentally, should be put on the statute books so that any other incom-

The price of share dealing

From Mr Richard Uzupris.

Sir, I was interested to read the latest proposals by the Stock Exchange to inhibit insider dealing as reported by Robert Peston ("Tighter checks on insider dealing proposed", October 5). I would like to make the following two observations:

1) Suspension of dealings in shares after "normal" price fluctuation parameters have been exceeded would probably be too late, as the professional insiders would have already dealt.

2) In the specific case of Portals

it is doubtful that any stockbroker asked by a client whether or not to sell the shares during the four-day period in question would have failed to point out the bid speculation - the shareholders who missed out would more than likely have been those using execution-only, cut-price share dealing facilities. Investing is the same as any other business - you only get what you pay for.

Richard Uzupris, 6 Britannia Gardens, Westcliffe-on-Sea, Essex SS9 8BN

Markets are not always right

From Mr Stephen Beer.

Sir, I imagine Stephen Butler (Letters, October 3) has little practical experience of financial markets, judging by his faith in them over central bankers. Even casual observation - as opposed to simple economic theory - leads to the conclusion that most market participants can be wrong for some of the time.

Eventually they realise their mistake and the market cor-

rects - often dramatically. Who I wonder, on average, is the most "trustworthy" when predicting inflation? Large numbers of traders with little option but to follow the prevailing "market view", or central bankers appointed by politicians but with reputations to develop? Difficult one, that.

Stephen Beer, 30 Caulwell Close, Chelmer Village, Chelmsford CM2 6SG

COMPANY NEWS: UK

Argyll to withdraw from discount retailing

By Neil Buckley

Argyll, the UK's third-largest grocery retailer, is selling the rest of its Lo-Cost discount chain, ending its 13-year ownership of the trading name. The group has agreed to sell 101 of its remaining Lo-Cost stores, together with the trading name, and a freehold distribution depot at Queensferry, North Wales, to Co-operative Retail Services, for up to £73m. It plans to sell the remaining 50 stores and related assets "in due course".

The deal follows the sale of 123 Lo-Cost and 28 of Argyll's smaller Presto supermarkets to a consortium of Spar companies for £19.7m in August.

CRS plans to continue operating the stores as discount outlets under the Lo-Cost name, and is taking almost all of their 3,800 staff. About 60

redundancies will result from closure of Lo-Cost's head office. As well as buying the Queensferry depot, CRS is leasing Lo-Cost's other two distribution depots at Salford and Shrewsbury.

Mr Colin Smith, Argyll chief executive, said the decision to withdraw from discount retailing was a result of the strategic review being conducted into the group's business.

Lo-Cost made operating profits of only £6.3m on sales of £471m in the year to April 2, and Argyll had decided to focus on its Safeway supermarkets and Presto supermarkets.

The group was hindered in its efforts to make Lo-Cost a successful discount retailer by the wide variation in store sizes in the chain.

CRS is paying £59m for the stores, plus up to £14m more,

based on the average sales of the stores in the eight weeks until completion on November 12.

Argyll expects to make a total of between £86m and £100m from the two sales agreed plus the sale of the remaining stores, compared with a net asset value of about £33m.

Closure and other associated costs will be about £3m. The overall effect on earnings per share is expected to be broadly neutral.

Argyll admitted the sale was not being made "without a backward glance".

Lo-Cost was originally the retail operation of Oriel Foods, acquired by Argyll in 1981 from the RCA Corporation.

The original Argyll management team ran Oriel Foods at RCA between 1974 and 1977.

Analysts warn of provisions at Lucas

By Paul Cheeswright, Midlands Correspondent

Lucas Industries, the automotive and aerospace component maker, could make provisions of up to £100m, pushing it into a headline loss when it announces its annual figures on Monday.

The speculation among City analysts is that provisions could be at least £17m to take into account costs involved in winding off litigation in the US over lapses of quality control on aerospace component contracts with the Defense Department.

But the provisions could reach as high as £100m, in the opinion of Credit Lyonnais Laing, if Mr George Simpson, the new chief executive, embarks on a major restructuring of the group to cut costs. This may involve job losses and a continuation of the series of plant closures which go back to 1991-92.

Lucas's difficulties in the US are well known, but any provisions for restructuring remain guesswork until Mr Simpson, on Monday, outlines his strategic plans for the group.

If the provisions go as far as the highest guess, then they would push Lucas into a pre-tax loss. Without provisions, Lucas is expected to make pre-tax profits of more than £65m, perhaps as much as £80m, for the year to July, compared with £50.3m in 1992-93. The dividend is forecast to stay at 7p.

Mr Simpson, since his arrival from Rover last April, has reviewed Lucas's activities and concluded that the group should concentrate on aerospace and automotive. The first priority, he has made clear, is to improve the group's financial performance.

The plans, foreshadowed last week when Lucas put a software company up for sale and said it was considering the sale of a manufacturing systems consultancy, will also involve a new round of disposals. These are expected largely to be companies in what was the group's applied technology division.

Float puts miracle in new orbit

Alice Rawsthorn considers BSKyB's plans for reducing its debt

There can be few people involved with business start-ups who do not dream of the day when their company will go public. But for British Sky Broadcasting's management the prospect must at times have seemed little short of miraculous.

The short, but turbulent story of BSKyB has been one of the most exciting media sagas of the early 1990s.

The company has, under the aegis of Mr Sam Chisholm, its abrasive chief executive, staged a stunning recovery since the traumas of its launch in 1990 following a shotgun marriage between the struggling Sky satellite television venture, and its ailing rival, BSkyB.

This week's announcement that BSKyB was considering plans to float on the London and New York stock markets before Christmas, set the seal on its resurgence. The flotation should also yield significant financial and structural benefits to the company and its investors.

"BSKyB is very different today than it was a few years ago," said Mr Richard Brooke, its finance director. "But some aspects of our financial structure and ownership are more applicable to the old BSKyB than the successful company we've become. The flotation will change that."

One of the main incentives in going public is financial. It hopes to raise up to £1bn by selling new shares, representing 20 per cent of the enlarged



Sam Chisholm: stunning recovery for company under his control

equity, from the flotation, to be sponsored by Goldman Sachs and Leazard Brothers. All the money will then be used to reduce its £1.7bn debt.

None of BSKyB's four shareholders, Mr Rupert Murdoch's News Corporation, Granada, the UK leisure group, Chargeurs, the French textile company, and Pearson, the UK media concern that owns the Financial Times, will sell shares. Indeed, Chargeurs intends to buy more to prevent the dilution of its stake.

All four will benefit from the debt reduction as the proceeds will be used to repay most of the £1.2bn tranche of debt that they provided or guaranteed.

This strategy makes sense for the company in that the shareholder debt, which was taken on during its early crises, is more expensive to service than the £500m external

loans. The interest bill for shareholder debt came to £34m in the last financial year to June, so BSKyB should save as much as £70m in annual interest payments.

News Corporation, as the biggest investor with 50 per cent, is responsible for the largest chunk of the shareholder debt. It should be repaid £600m of the £500m loans it advanced to BSKyB after the flotation. Analysts suspect Mr Murdoch will channel the cash into Star, his Asian television network.

Chargeurs, Granada and Pearson will also be repaid a large proportion of the combined £250m they lent and be absolved of most of the £350m debt they guaranteed. The three companies provided equal shares of the debt and guarantees.

BSKyB will then decide how to deal with the remaining £200m of shareholder debt and obligations. Its advisers say that the loans will either remain intact or be transferred into external debt.

The reduction in the company's interest bill should have a dramatic effect on its financial performance. Ms Rebecca Wilmington-Ingram, media analyst at Morgan Stanley Securities, calculated that BSKyB could make pre-tax profits of £210m in the year to June, against her previous forecast of £158m. She has pencilled in profits of £350m for the next financial year.

Meanwhile the publicly-quoted BSKyB will have the flexibility to tap the market for more capital if it requires additional funding to launch ambitious ventures such as a pay-per-view digital satellite television service. Funds may also be needed to meet tougher competition for programming from the increasingly consolidated ITV companies and its emerging rivals in cable television.

The flotation also offers an opportunity for the company to streamline the complex ownership structure whereby its four shareholders have unusually strong controls over various aspects of the company, notably investment.

As for the issue itself, observers seem confident that it will be a success. "It's a great corporate story," said Ms Wilmington-Ingram. "And this is the perfect time to tell it."

Dartmoor Investment Tst launches bid for Sphere

By Bethan Hutton

Dartmoor Investment Trust yesterday launched a bid for Sphere, a split capital investment trust due to be wound up in a year's time.

Sphere is treating the bid as hostile and has recommended that shareholders take no action as yet. However, Dartmoor appears to have a majority in favour of its offer, which values the shares and warrants in question at £52.45m. It owns 7.01 per cent of the income and residual capital shares; other funds run by the same manager, Exeter Asset Management, own a further 23.51 per cent, and have indicated acceptance of the offer.

Indications of acceptance

have also been received from Abtrust Fund Managers, which owns 22.94 per cent of the shares. This would give Dartmoor 52.46 per cent of the shares, but the acceptances are not yet irrevocable.

The bid is only for one class of share - income and residual capital and the warrants. It offers eight new Dartmoor ordinary shares for every 20 Sphere shares, and one new Dartmoor warrant for every four Sphere warrants, which at Sphere 8 prices values the Sphere shares at 42.7p and the warrants at 5.5p. The October 6 mid-market prices were 42.5p and 5.5p respectively.

Sphere shares are trading at about asset value, and yield about 10 per cent, while Dart-

moor shares are trading at a premium of about 25 per cent, and yield about 11 per cent. The offer would give Sphere shareholders a continuing, increased income stream but possibly a lower capital value.

Dartmoor is not bidding for Sphere's zero dividend and cumulative preference shares, which account for about £100m of the £150m fund.

The board of Sphere announced several months ago that it was looking at options to extend the life of the trust but it has not yet made any proposals. The bid will put pressure on it to do so.

The deal would allow Sphere's managers, Marathon Asset Management, to retain the contract until the wind-up.

T&S Stores chooses chief executive

By Richard Wolfe

Mr Jim McCarthy has been appointed chief executive of T&S Stores, the newsgate and convenience store retailer. Mr McCarthy was previously joint managing director with Mr Stephen Boddice, 42, who retires from business life on December 31.

Mr McCarthy joined the T&S board as group retail director from Dillons newsagents, where he had been managing director since 1985. T&S acquired the Dillons and Alfred Freedy chains of confectionery, tobacco and newspaper stores from Next for £53.5m in 1989.

Mr Boddice leaves T&S after 17 years at the Walsall-based company, which has grown from owning three kiosks to more than 700 stores in less than 20 years.

Mr David Crellin has been appointed group financial director, after working as operating financial director. He joined T&S in 1990 after directorships at Evode and Scotcad.

Bluebird founder pockets £2.5m

By David Blackwell

Polly Pocket and Mighty Max are pocket sized and mighty small - but they mean Big Money. Yesterday, Mr Torquill Norman, founder and chairman of Bluebird Toys, cashed in on their success with the world's children and halved his stake in the group.

He sold 1.08m ordinary shares at 207p each, while his wife sold 120,000 shares, netting the couple almost £2.5m.

The Bluebird shares, which closed yesterday unchanged at 213p, were placed with institutions through S.G. Warburg.

Mr Norman, whose lifelong hobby is flying classic aircraft, retains 1.03m shares, or 2.3 per cent of the shares in issue. He last sold shares in June, placing 275,000 through Smith New Court Securities, the group's broker at the time.

He is not proposing any further sales for a year.

Earlier this year Mr Norman, who founded Bluebird Toys in 1980, stood down as the company's chief executive. He said he would retain the chairmanship

and concentrate on new product development.

Mr Christopher Burgin, who spent 18 years with Hasbro, the US toys and games group, was appointed chief executive with a brief to concentrate on marketing the group's toys.

Last week Mr Burgin purchased 15,000 shares at 237p, taking his holding to 25,000 shares.

The biggest shareholder in Bluebird remains Fransad Investissements & Gestion, ultimately owned by UBS.

Fransad's shareholding has been reduced from 29.6 per cent two years ago to 18.8 per cent.

Last month the group announced interim pre-tax profits more than trebled from £1.99m to £7.19m and declared its first interim dividend. Turnover increased from £23.7m to £40.7m, with overseas sales 84 per cent up at £28.7m and UK sales ahead 49 per cent at £12m.

City analysts are expecting full year profits for Bluebird of about £18m, and earnings per share of 26p.

Dawson restructures home fashions subsidiary

Dawson Home Fashions, the shower curtain and bathroom accessories subsidiary of Dawson International, the textile group, is reorganising its manufacturing and distribution.

The move forms part of DHF's plans, announced in June, to return to profitability. In the year March 26 1994 it made pre-tax losses of £2.9m on turnover of £57.3m, compared with profits of £4.6m on turnover of £59.5m.

DHF's Vienna, Ohio plant will be phased out and consolidated into the Sardinia, Mississippi facility, with the loss of 250 jobs. There was a £12m provision for restructuring in Dawson International's accounts for the year which the company continues to believe will be adequate.

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INTERNATIONAL COMPANIES AND FINANCE

Hollinger to raise Telegraph stake

By Christopher Price

Shares in The Telegraph jumped 20p to 330p in London yesterday after Hollinger, the Canadian publishing company controlled by Mr Conrad Black, said it would seek to increase its 57 per cent stake in the UK newspaper group.

Hollinger said it would begin purchasing any available stock "at or around current market prices" from the start of trading on Monday.

Hollinger said it "is prepared initially to buy up to 6.5m ordinary shares," which would account for about 5 per cent of The Telegraph's shares.

At yesterday's close, the exercise would cost Hollinger

more than £22m (\$24.78m).

The move is likely to excite further controversy over Mr Black's dealings with The Telegraph. In May, Hollinger reduced its stake in The Telegraph to 57 per cent from 65.2 per cent, raising £815m (US\$1.134m), only weeks before The Daily Telegraph cut its cover price as a price war erupted in Britain's newspaper industry. The share price consequently slumped to 332p from 540p. A London Stock Exchange inquiry cleared Mr Black of any wrongdoing, although Casanova, the company's broker, later resigned.

Yesterday, Mr Jack Boulton, Hollinger vice-president, said: "Conrad Black stated before

that if the price was right he would buy Telegraph shares; that's just what he's done.

"We think The Telegraph represents one of the better long-term investments around at the moment. We are committed investors and will not turn around and re-sell this when the shares move up to, say, 55."

On the controversy surrounding the group's last dealings in The Telegraph, he said: "Buying these shares isn't going to improve our image in the City of London. Only time will do that. But we're doing this because it's a darn good investment." But he added Hollinger would have begun buying several weeks ago had

there not been a conflict.

Analysts speculated that the Hollinger statement could signal an end to the newspaper price war. "The feeling is that The Times will increase its price in the next few months, which would allow everyone else to move theirs upwards too," said one broker. The Times, owned by News Corporation, is the cheapest quality broadsheet paper.

However, Mr Stephen Gravena, managing director of The Telegraph, denied the Hollinger move would be followed by an increase in The Daily Telegraph's price. "We have no plans to change the cover price in the foreseeable future."

Growth continues at European chip maker

By John Riddling in Paris

The strong improvement in results at SGS-Thomson, the Franco-Italian semiconductor manufacturer, continued in the second quarter with profits increasing 47 per cent to \$86.5m.

The second-quarter rise took first-half net profits to \$166.1m, slightly above the figure for the whole of 1993. The first half of the group's financial year ended at the beginning of July.

The company, formed in 1987 through the merger of Thomson Semiconductor of France and Italy's SGS Microelectronics, said the improvement in results reflected the buoyancy of the international semiconductor market, the introduction of products and increased productivity.

The strong demand for semiconductors and related products was reflected in sales of \$1.27bn, a rise of 32 per cent over the comparable period in 1993. In the second quarter, revenues amounted to \$672m.

SGS-Thomson said all of its principal product groups increased sales in the second quarter, while bookings during the period were described as strong.

The company's principal markets include semiconductors for applications in telephones, computers and control systems.

Its principal geographical markets in Europe, the Americas and Asia Pacific, reported increased turnover.

Industry analysts in Paris said they expected the strong sales growth of the past few years to slow towards the end of this year.

"Demand will remain healthy for the foreseeable future, but there will be a cooling off as more capacity comes on stream and as the cycle peaks," said an electronics analyst.

SGS-Thomson said it had continued to invest heavily in new equipment and facilities, particularly in France, Italy and the US. However, the debt-to-equity ratio was maintained at about 25 per cent, according to the group.

Disney to promote French cinema in US

By Andrew Jack in Paris

Mickey Mouse may soon be blushing in embarrassment, thanks to an attempt by his masters to bring the gems of the French cinema to American audiences in readily digestible form.

EuroDisney, the French-based theme park, announced yesterday that Mr Philippe Bourguignon, chairman, had decided to set up a new subsidiary of Miramax, owned by Walt Disney, which would promote French films in the US.

Mr Bourguignon, who had the idea but will not be directly involved in managing the company, said the aim was to release at least three French films a year in the US.

Asked whether some of the more sensational French films would be on offer, he said: "We are not on offer uncut to American mass market tastes."

He added that the company had been criticised for being too American in outlook for its

the types of film to be supported.

It said the new company aimed to dub four existing French films into English by 1998 in an attempt to broaden the audience of European cinema away from a minority "elite type of viewer" prepared to read sub-titles.

EuroDisney said that the new company aimed to dub four existing French films into English by 1996

The subsidiary may also threaten the dominance of a few leading French actors, such as Gerard Depardieu, by taking an active part in casting French actors in Miramax film productions.

EuroDisney - which has been criticised for being too American in outlook for its

European customers - lost no opportunity to emphasise the French image of the initiative.

It said the company would be based in Paris and would be headed by a French citizen, Ms Agnes Matre, vice-president of Miramax.

The company admitted that EuroDisney wanted to build its own, international identity, but stressed the reason behind the move was purely "a business decision" and that "we should focus on and retain our Disney roots".

The new company intends to work on about five European productions a year and set up co-productions with French producers.

It will find French locations for English language films, and plans to acquire at least two French films for shooting by the end of 1996.

It wants to expand the market for French classic films, and has bought the rights for US release of two: Bunuel's *Belle du Jour* and Clement's *Plaisir*.

Crédit Lyonnais reduces first-half charge

By Andrew Jack

Crédit Lyonnais, the financially-troubled French banking group, reduced the level of provisions it was planning to make for the first half of the year by more than FF1bn (\$180m) after last-minute discussions with regulators.

This reduced the overall level of provisions to FF10.1bn. Many analysts believe this is only about half the level that will be required to cope with the legacy of non-performing loans inherited from the bank's activities over the past few years.

Banking sources suggested yesterday that planned provisions in the six months to June 30 on its exposure to activities in other countries were reduced by up to FF2bn after discussions between Crédit Lyonnais officers, its new auditors and the French banking commission and state auditing commission.

The reduction partly reflects the tensions between Mr Jean Peyrelevade, the chairman of the bank appointed by the government last year, and the economics and finance ministry, which has been resisting the bank's demands for additional state support against outstanding

potential liabilities.

Government sources suggested this month that Mr Peyrelevade had originally told Mr Edouard Balladur, the economics minister, that Crédit Lyonnais would require provisions of up to FF2.5bn.

Officials have demanded far more detailed and justified quantification of potential provisions before providing public assurance that they would underwrite the losses this may cause.

The bank has been under pressure to sell off core activities as well as industrial investments, although it remains committed to main-

taining its European network, which includes about 1,000 branches outside France and 2,500 within the country.

It emerged yesterday that Crédit Lyonnais was poised to appoint a new member to its executive committee with special responsibilities for internal management support in the restructuring operations.

Mr Pascal Lamy, previously director of Mr Jacques Delors' cabinet in Brussels, is reviewing operations within the bank and is expected shortly to become the fourth member of the committee alongside Mr Peyrelevade, Mr Michel Renault and Mr Dominique Bazy.

ITT expected to take majority stake in Ciga

ITT, the US conglomerate which owns the Sheraton hotel chain, is expected to announce early next week it has a majority stake in Ciga, the Italian luxury hotels group, following an agreed bid, writes Andrew Hill in Milan.

Sources said yesterday the US group could end up with as much as 35 per cent of Ciga, ending a year-long struggle for full control of the troubled hotels group. The ITT offer closed on Friday night and details of the outcome should be disclosed after the weekend.

ITT already owns 35.25 per cent of Ciga.

Sun Hung Kai profits rise 32%

By Louise Lucas in Hong Kong

Sun Hung Kai Properties, one of Hong Kong's leading property developers and controlled by the Kwok family, yesterday posted a 32 per cent increase in net profits to HK\$8.5bn (US\$1.1bn) for the year to June 30.

This is in line with market expectations and compares with HK\$6.7bn for the previous year.

Earnings were struck on the back of HK\$15.2bn in sales, 48 per cent up on the previous year. The group's revenue followed Henderson Land, the developer which reported on Wednesday, Sun Hung Kai

Properties is awarding a special cash bonus to mark the "very satisfactory" results.

Shareholders are to receive a bonus of 38 cents a share on top of the final dividend of HK\$1.01 a share. This gives a total annual payout of HK\$1.92 a share, 25 per cent up on the previous year (adjusted for a capitalisation issue).

Earnings a share rose 24 per cent to HK\$3.91 from HK\$3.16.

Sun Hung Kai Properties is the last of the colony's big developers to report, and its figures confirm the sector's ability to weather the storms of 1994, which have included government measures to cool

property prices and rising interest rates.

Mr Walter Kwok, chairman and chief executive, said that while residential property prices had tumbled between 15 per cent and 30 per cent from the highs in the first quarter of the year, end-users were gradually returning to the market and prices were stabilising.

"Strong demand for housing is expected to continue as a result of sustainable growth in household income. The fundamental factors underpinning the residential market remain unchanged, though interest rate movements need to be monitored," he said.

Metallgesellschaft cuts debt by two-thirds to DM1.2bn

By Christopher Parkes in Frankfurt

Metallgesellschaft has reduced its net debt by two-thirds, and made a "precision landing" on targets set earlier this year when creditor banks agreed a DM3.4bn (\$2.2bn) rescue package, according to Mr Kajo Neukirch, chairman.

Debt of DM3.4bn at the end of the 1992-93 financial year had been cut to DM1.2bn by the end of September, he said yesterday. Bank liabilities had been reduced to DM4.1bn from DM7.6bn.

The assets sale instituted when he took control last December had generated DM4.2bn, and 90 subsidiaries had been disposed of or consolidated.

Cost savings of DM500m this year will be followed by a further DM1bn by the end of the current financial year, when the company expects to



Kajo Neukirch: focusing on the group's core interests

show an operating profit of more than DM100m.

In a scornful assessment of the synergies attributed to the old Metallgesellschaft, Mr Neukirch said they should not be over-estimated.

"A company which simultaneously distributes aircraft galley, holds stakes in bakeries and trades in developing countries' debt can only be improved by targeted disinvestment," he added.

Mr Neukirch appeared to be responding to criticisms that the group has been reduced to a mere shadow of its former self by his radical onslaught on the alleged investment excesses wrought by his sacked predecessor, Mr Heinz Schmittmühlbach.

The company would concentrate on its core interests in trading, plant construction, chemicals and financial services, he said.

Lead and zinc operations would be rationalised further, and the environmental divisions would be tightened. In the medium term the company would withdraw from loss-making recycling and environmental cleaning operations.

HSBC GLOBAL INVESTMENT FUNDS
Société d'investissement à capital variable
United Kingdom Equity
Registered Office: 7 rue du Marché-aux-Herbiers, L-1728 Luxembourg
R.C. Luxembourg B-25887

Convening notice

The shareholders of HSBC Global Investment Funds - United Kingdom Equity ("United Kingdom Equity") are hereby convened to attend an

EXTRAORDINARY CLASS MEETING OF THE SHAREHOLDERS OF UNITED KINGDOM EQUITY

to be held on October 27th 1994 at 3 pm at 7 rue du Marché-aux-Herbiers, L-1728 Luxembourg, with the following agenda:

1. Decision to amalgamate the United Kingdom Equity with HSBC Global Investment Funds - Asian Equity ("Asian Equity") by contribution of all the net assets of United Kingdom Equity to Asian Equity, against attribution to the shareholders of United Kingdom Equity of an appropriate number of shares of Asian Equity, in proportion to their shareholding in the United Kingdom Equity, at an exchange ratio calculated on the basis of the respective net asset values per share of the two sub-funds on the day of the contribution.
2. Decision to close United Kingdom Equity.
3. Determination of the effective date of the contribution.

Resolutions on the above agenda do not require a quorum and decisions are taken by a simple majority of the shares present or represented at the meeting.

Each entire share is entitled to one vote.

In order to participate in the meeting, the holders of bearer shares must deposit their shares at the office of HSBC Investment Funds Luxembourg SA, 7 rue du Marché-aux-Herbiers, L-1728 Luxembourg by no later than 5pm on October 26th 1994. Proxies will be sent to registered shareholders by mail. In order to be valid, proxies must be returned to the office of HSBC Investment Funds Luxembourg SA, attn: Marceline Jans, fax: (352) 47 55 69, by no later than 5pm on October 26th 1994.

A notice confirming the outcome of the meeting will be published in the Luxembourg Memorial, in the Luxembourg Wort, in the Financial Times and in the South China Morning Post.

The cost of the amalgamation will be borne by the Investment Manager.

The attention of the shareholders of United Kingdom Equity is specifically drawn to the following:

Whereas United Kingdom Equity invests in shares issued mainly by well established United Kingdom Companies the investment policy of the Pan-European Equity aims to invest in a wide range of company shares quoted or traded on any of the Eligible Markets in both the United Kingdom and in other Continental European countries. Generally, the portfolio of securities will be those of large established companies with proven track records. The portfolio will also include securities in appropriate smaller or more specialised companies.

The currency of denomination of Pan-European Equity is US dollar as is the case for United Kingdom Equity.

The investment adviser to Pan-European Equity is HSBC Asset Management Americas Inc, who are also the investment adviser to United Kingdom Equity.

The distribution policy of Pan-European Equity is identical to the one applied to United Kingdom Equity.

The Directors accept responsibility for the accuracy of the contents of this document.

The Board of Directors

HSBC GLOBAL INVESTMENT FUNDS
Société d'investissement à capital variable
United Kingdom Equity
Registered Office: 7 rue du Marché-aux-Herbiers, L-1728 Luxembourg
R.C. Luxembourg B-25887

Convening notice

The shareholders of HSBC Global Investment Funds - United Kingdom Equity ("United Kingdom Equity") are hereby convened to attend an

EXTRAORDINARY CLASS MEETING OF THE SHAREHOLDERS OF UNITED KINGDOM EQUITY

to be held on October 27th 1994 at 3 pm at 7 rue du Marché-aux-Herbiers, L-1728 Luxembourg, with the following agenda:

1. Decision to amalgamate the United Kingdom Equity with HSBC Global Investment Funds - Pan-European Equity ("Pan-European Equity") by contribution of all the net assets of United Kingdom Equity to Pan-European Equity, against attribution to the shareholders of United Kingdom Equity of an appropriate number of shares of Pan-European Equity, in proportion to their shareholding in the United Kingdom Equity, at an exchange ratio calculated on the basis of the respective net asset values per share of the two sub-funds on the day of the contribution.
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A notice confirming the outcome of the meeting will be published in the Luxembourg Memorial, in the Luxembourg Wort, in the Financial Times and in the South China Morning Post.

The cost of the amalgamation will be borne by the Investment Manager.

The attention of the shareholders of United Kingdom Equity is specifically drawn to the following:

Whereas United Kingdom Equity invests in shares issued mainly by well established United Kingdom Companies the investment policy of the Pan-European Equity aims to invest in a wide range of company shares quoted or traded on any of the Eligible Markets in both the United Kingdom and in other Continental European countries. Generally, the portfolio of securities will be those of large established companies with proven track records. The portfolio will also include securities in appropriate smaller or more specialised companies.

The currency of denomination of Pan-European Equity is US dollar as is the case for United Kingdom Equity.

The investment adviser to Pan-European Equity is HSBC Asset Management Americas Inc, who are also the investment adviser to United Kingdom Equity.

The distribution policy of Pan-European Equity is identical to the one applied to United Kingdom Equity.

The Directors accept responsibility for the accuracy of the contents of this document.

The Board of Directors

HSBC GLOBAL INVESTMENT FUNDS
Société d'investissement à capital variable
European Equity
Registered Office: 7 rue du Marché-aux-Herbiers, L-1728 Luxembourg
R.C. Luxembourg B-25887

Convening notice

The shareholders of HSBC Global Investment Funds - European Equity ("European Equity") are hereby convened to attend an

EXTRAORDINARY CLASS MEETING OF THE SHAREHOLDERS OF EUROPEAN EQUITY

to be held on October 27th 1994 at 3 pm at 7 rue du Marché-aux-Herbiers, L-1728 Luxembourg, with the following agenda:

1. Decision to amalgamate the European Equity with HSBC Global Investment Funds - Pan-European Equity ("Pan-European Equity") by contribution of all the net assets of European Equity to Pan-European Equity, against attribution to the shareholders of European Equity of an appropriate number of shares of Pan-European Equity, in proportion to their shareholding in the European Equity, at an exchange ratio calculated on the basis of the respective net asset values per share of the two sub-funds on the day of the contribution.
2. Decision to close European Equity.
3. Determination of the effective date of the contribution.

Resolutions on the above agenda do not require a quorum and decisions are taken by a simple majority of the shares present or represented at the meeting.

Each entire share is entitled to one vote.

In order to participate in the meeting, the holders of bearer shares must deposit their shares at the office of HSBC Investment Funds Luxembourg SA, 7 rue du Marché-aux-Herbiers, L-1728 Luxembourg by no later than 5pm on October 26th 1994. Proxies will be sent to registered shareholders by mail. In order to be valid, proxies must be returned to the office of HSBC Investment Funds Luxembourg SA, attn: Marceline Jans, fax: (352) 47 55 69, by no later than 5pm on October 26th 1994.

A notice confirming the outcome of the meeting will be published in the Luxembourg Memorial, in the Luxembourg Wort, in the Financial Times and in the South China Morning Post.

The cost of the amalgamation will be borne by the Investment Manager.

The attention of the shareholders of European Equity is specifically drawn to the following:

Whereas European Equity invests in shares of large Continental European Companies, the investment policy of the Pan-European Equity aims to invest in a wide range of company shares quoted or traded on any of the Eligible Markets in both the United Kingdom and in other Continental European countries. Generally, the portfolio of securities will be those of large established companies with proven track records. The portfolio will also include securities in appropriate smaller or more specialised companies.

The currency of denomination of Pan-European Equity is US dollar as is the case for European Equity.

The investment adviser to Pan-European Equity is HSBC Asset Management Americas Inc, who are also the investment adviser to European Equity.

The distribution policy of Pan-European Equity is identical to the one applied to European Equity.

The Directors accept responsibility for the accuracy of the contents of this document.

The Board of Directors

HSBC GLOBAL INVESTMENT FUNDS
Société d'investissement à capital variable
Canadian Equity
Registered Office: 7 rue du Marché-aux-Herbiers, L-1728 Luxembourg
R.C. Luxembourg B-25887

Convening notice

The shareholders of HSBC Global Investment Funds - Canadian Equity ("Canadian Equity") are hereby convened to attend an

EXTRAORDINARY CLASS MEETING OF THE SHAREHOLDERS OF CANADIAN EQUITY

to be held on October 27th 1994 at 3 pm at 7 rue du Marché-aux-Herbiers, L-1728 Luxembourg, with the following agenda:

1. Decision to amalgamate the Canadian Equity with HSBC Global Investment Funds - North American Equity ("North American Equity") by contribution of all the net assets of Canadian Equity to North American Equity, against attribution to the shareholders of Canadian Equity of an appropriate number of shares of North American Equity, in proportion to their shareholding in the Canadian Equity, at an exchange ratio calculated on the basis of the respective net asset values per share of the two sub-funds on the day of the contribution.
2. Decision to close Canadian Equity.
3. Determination of the effective date of the contribution.

Resolutions on the above agenda do not require a quorum and decisions are taken by a simple majority of the shares present or represented at the meeting.

Each entire share is entitled to one vote.

In order to participate in the meeting, the holders of bearer shares must deposit their shares at the office of HSBC Investment Funds Luxembourg SA, 7 rue du Marché-aux-Herbiers, L-1728 Luxembourg by no later than 5pm on October 26th 1994. Proxies will be sent to registered shareholders by mail. In order to be valid, proxies must be returned to the office of HSBC Investment Funds Luxembourg SA, attn: Marceline Jans, fax: (352) 47 55 69, by no later than 5pm on October 26th 1994.

A notice confirming the outcome of the meeting will be published in the Luxembourg Memorial, in the Luxembourg Wort, in the Financial Times and in the South China Morning Post.

The cost of the amalgamation will be borne by the Investment Manager.

The attention of the shareholders of Canadian Equity is specifically drawn to the following:

The investment policy of North American Equity is to provide maximum capital growth through a portfolio of carefully selected shares traded on the stock exchanges of the United States of America, Canada and Mexico, whereas the investment policy of Canadian Equity is to achieve the same objective by investing only in companies whose activities are principally based in Canada or which are quoted or traded on an Eligible Market in Canada.

The currency of denomination of North American Equity is US dollar as is the case for Canadian Equity.

The investment adviser to North American Equity is HSBC Asset Management Americas Inc, who are also the investment adviser to Canadian Equity.

The distribution policy of North American Equity is identical to the one applied to Canadian Equity.

The Directors accept responsibility for the accuracy of the contents of this document.

The Board of Directors

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In accordance with the provisions of the above mentioned Notes, notice is hereby given as follows:

- Interest period: October 7, 1994 to April 7, 1995 (182 days)
- Interest payment date: April 7, 1995
- Interest rate: 6.325% per annum
- Coupon amount payable per Note of US \$1,000,000: US\$ 31,976.39

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Notice of Event of Default
Banca Credi, S.A.
8.375% Notes due 1995

Pursuant to the provisions of Conditions 9 and 11 of the Terms and Conditions of the 8.375% Notes due 1995 (the "Notes") issued by Banca Credi, S.A. (the "Issuer"), notice is hereby given of the occurrence, on or about September 6, 1994, of an "Event of Default" described in subparagraph (vi) of Condition 9 of such Terms and Conditions. According to an announcement made by the Ministry of Finance and Public Credit of Mexico on September 6, 1994, the Ministry has instituted a managerial intervention by the National Banking Commission ("NBC") of Mexico of all of the entities forming a part of the Credi-Union Financial Group, including the Issuer. According to the Ministry's announcement, a "managerial intervention" involves the substitution of existing management of the entities by broadly empowered appointees of the NBC. Such action appears to constitute an assumption by the government of Mexico or an authority thereof of the business and operations of the Bank, within the meaning of subparagraph (vi) of Condition 9 of the Terms and Conditions of the Notes. Pursuant to the further provisions of Condition 9, the holder of Notes of at least 5% in aggregate principal amount of the Notes outstanding may, by written notice to the Issuer and the undersigned Fiscal Agent, declare the principal of the Notes to be due and payable.

The Bank of New York
as Fiscal Agent
Dated: October 6, 1994

The Financial Times
plans to publish a Survey on
Bolivia
on Wednesday, November 9.

With over ten years of economic and political reform to its credit and the recent inauguration of its third successive democratic government, Bolivia is an increasing strength in Latin America. The survey will report on the country's economy, political scene, financial markets, privatisation policy and more.

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FT Surveys

COMMODITIES AND AGRICULTURE

WEEK IN THE MARKETS
Brazil rain
hits coffee
futures

Coffee prices tumbled at the London Commodity Exchange yesterday as reports of rain in Brazilian growing areas "spooked" speculators holding long positions.

The market had been set up for a big fall by an overnight plunge in New York prices. That had been factored into London values by the middle close, when the January position was quoted at \$3.675 a tonne, down \$188, traders told the Reuters news agency. But the sellers were not yet done. As New York prices fell still further in early business LCE futures followed suit, and with more rain reported in Brazil the close the January price was down at the close to \$3.523 a tonne, having lost \$300 on the day and \$330 on the week. At one stage it dipped to a six-week low of \$3.499 a tonne.

"There has been a lot of nervousness and people do tend to panic a little when they have seen the rain," one trader explained. "If we see more rain over the weekend, we will come in Monday and be under pressure again."

At the London Metal Exchange copper and zinc values lost ground yesterday. But the relatively modest declines, which dealers attributed chiefly to profit-taking, left them both with net rises on the week.

Copper prices began on Tuesday to claw back the heavy falls suffered late last week after an earlier strong advance boiled over. At yesterday's close the three months delivery position stood at \$2,535 a tonne, up \$44.50 overall but \$43 short of last week's 34-year high. Scarcity of supplies available for immediate delivery kept the cash quotation at a premium to three months.

The three months price had peaked at \$2,542 a tonne early in the day after the announcement of a big fall in LME warehouse stocks. But that had

been widely expected and the price slipped back to \$2,524 before buyers were tempted back into the market in any numbers. The sellers regained the upper hand, however, once the afternoon ring was over, in after hours trading the price was hovering only a few dollars above \$2,500 a tonne.

"The market is still nervous after last week's sell-off and it still fears a further wave of investor liquidation," a trader told Reuters.

The zinc market has been lagging the other LME metals for most of this year as continuing overproduction and, therefore, rising stocks have weighed down sentiment. But this week the investment funds that have been so influential in the recent strength of the copper and aluminium markets appeared to decide that it was time for this metal to benefit from their ministrations. A sharp price jump in mid-week was trimmed back slightly yesterday following another rise, though a relatively modest one, in LME stocks, but at the close the three months quotation was still showing a \$40.25 rise on the week at \$1,069.75 a tonne.

Dealers suggested that the market was poised for further gains to push it past the 20-month high reached on Thursday.

Aluminium prices meanwhile headed back towards their recent highs, encouraged by European merchant demand. The three months afternoon ring close of \$1,651.25 a tonne yesterday, near the day's high, was up \$3.75 on the week and \$33.75 on the week. But the price edged back below \$1,650 in after hours trading.

Fears of US interest rate rises put the gold price under pressure early yesterday, but supported at \$392 a troy ounce held once again.

Richard Money

WEEKLY PRICE CHANGES

| | Latest price | Change on week | Year ago | 1994 | Low |
|------------------------|--------------|----------------|-----------|-----------|------------|
| Gold per troy oz. | \$322.70 | -1.10 | \$357.25 | \$396.50 | \$369.50 |
| Silver per troy oz. | \$350.00 | +0.40 | \$285.00 | \$384.50 | \$351.50 |
| Aluminium 99.7% (cash) | \$1,634.5 | +22.0 | \$1,095.5 | \$1,634.5 | \$1,107.50 |
| Copper grade A (cash) | \$2,535.0 | +45.0 | \$1,674.0 | \$2,542.0 | \$1,715.00 |
| Lead (cash) | \$303.0 | -1.0 | \$271.0 | \$291.5 | \$249.0 |
| Nickel (cash) | \$866.5 | -30.0 | \$451.25 | \$866.5 | \$210.0 |
| Zinc SHG (cash) | \$1,048.5 | +43.0 | \$689.5 | \$1,053 | \$900.5 |
| Tin (cash) | \$5,355 | -70 | \$4,550 | \$5,550 | \$4,750.0 |
| Cocoa Futures Jan | 3,385 | -49 | 3,915 | 5,124 | 3,385 |
| Coffee Futures Jan | 3,385 | -332 | 3,173 | 5,409 | \$1,175 |
| Sugar (LDP) Jan | \$308.50 | -6.10 | \$266.5 | \$318.4 | \$252.9 |
| Barley Futures Jan | \$104.80 | -0.85 | \$103.75 | \$105.50 | \$102.50 |
| Wheat Futures Jan | \$7.00 | -0.05 | \$7.00 | \$117.50 | \$7.00 |
| Cotton Oct/Nov A index | 73.90 | -0.20 | \$50.25 | \$7.00 | \$2.45 |
| Wool (RWS) Sep | 43.95 | -15 | \$22.0 | \$45.5 | \$42.0 |
| Oil (Brent Blend) | \$17.21x | +0.56 | \$17.19 | \$16.81 | \$13.16 |

For more on these changes, see p. 10. Prices are in US dollars unless otherwise stated. In Pounds, a Cent is 1/100 of a Pound.

WORLD BOND PRICES

| Coupon | Red Date | Price | Day's Change | Yield | Week ago | Month ago |
|-------------------|-------------|--------|-----------------|--------|----------|-----------|
| Australia | 9.000 | 99/04 | 86.9000 | -0.080 | 10.30 | 9.47 |
| Belgium | 7.250 | 100/04 | 97.5500 | -0.080 | 8.57 | 8.59 |
| Canada | 8.500 | 100/04 | 82.7000 | -0.050 | 9.07 | 8.86 |
| Denmark | 7.000 | 100/04 | 86.7700 | -0.050 | 9.04 | 8.02 |
| France | 6.500 | 100/04 | 101.1250 | -0.120 | 7.59 | 7.48 |
| Germany | 5.500 | 100/04 | 92.4900 | -0.022 | 8.22 | 8.08 |
| Italy | 7.500 | 100/04 | 96.4700 | -0.070 | 7.72 | 7.89 |
| Japan | 8.500 | 100/04 | 80.2000 | -0.680 | 11.98 | 11.42 |
| Netherlands | 4.800 | 100/04 | 97.5500 | -0.080 | 8.57 | 8.61 |
| Spain | 6.000 | 100/04 | 95.7700 | -0.190 | 7.46 | 4.54 |
| UK Gilts | 8.000 | 100/04 | 87.3300 | -0.430 | 7.68 | 7.42 |
| US Treasury | 8.000 | 100/04 | 81.3500 | -0.080 | 11.25 | 11.11 |
| ECU (French Govt) | 6.000 | 100/04 | 99.6900 | -0.172 | 8.83 | 8.47 |
| US Treasury | 6.750 | 11/24 | 88-26 | -7/32 | 8.31 | 8.82 |
| US Treasury | 9.000 | 100/04 | 102-10 | -7/32 | 8.71 | 8.77 |
| US Treasury | 7.250 | 100/04 | 99-10 | -7/32 | 7.63 | 7.62 |
| US Treasury | 7.500 | 11/24 | 94-29 | -32/32 | 7.95 | 7.83 |
| US Treasury | 6.000 | 100/04 | 82.8500 | -0.150 | 8.75 | 8.61 |

Source: Reuters, New York Times, Wall Street Journal, 1/2/91.
1 OZs (including withholding tax at 12.5 per cent payable by nonresidents)

Local market standard.

ECONOMIC DIARY - FORWARD EVENTS

TOMORROW: Austrian general elections. Belgium holds local elections.

MONDAY: Credit business (August). Producer price index (September). Conference on Security and Co-operation in Europe (CSCE) review conference in Budapest to prepare documents for approval by CSCE summit on December 5 and 6. European Union economic and financial council meets in Luxembourg to discuss recommendations for meeting Maastricht criteria.

TUESDAY: Conservative Party holds annual conference in Bournemouth (until October 14). General strike expected in Pakistan. Announcement of Nobel Prize for economics.

WEDNESDAY: Retail prices index (September). Labour market statistics: unemployment and unfilled vacancies (September-provisional); average earnings index (August-provisional); employment, hours, productivity and unit wage costs; industrial disputes; labour force survey (key results) (June-August). Index of production and construction for Wales (second quarter). European and east Asian economic summit in Singapore.

THURSDAY: New earnings survey 1994 Part B: analyses by agreement. Machine tools (August). Capital issues and redemptions (September). US producer price index (September). Bundesbank council meets in Frankfurt.

FRIDAY: Usable steel production (September). Overseas transactions of UK consultancy firms (1993). US consumer price index (September); industrial production and capacity utilisation (September) and real earnings (September). Japan wholesale price index (September); bank data (September). Italian trade unions hold general strike in protest against 1995 budget. Vietnam's National Assembly starts new session. Announcement of 1994 Nobel Peace Prize.

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BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7% PURITY (\$ per tonne)

Cash 3 mths

Previous 1647-5

High/Low 1629-5-6

AM Official 1654-1/2

Open Int. 1645-8

Close 255,000

Open Int. 255,000

Total daily turnover 55,646

ALUMINIUM ALLOY (\$ per tonne)

Close 1677-82

Previous 1682-5

High/Low 1660-70

AM Official 1680

Open Int. 1700/1680

Close 1658-80

Open Int. 1675-85

Close 3,005

Open Int. 173

LEAD (\$ per tonne)

Close 632-4

Previous 642-3

High/Low 625-6.5

AM Official 645-6.5

Open Int. 644-7

Close 631-2.5

Open Int. 642-3

Total daily turnover 4,288

NICKEL (\$ per tonne)

Close 6660-70

Previous 6680-80

High/Low 6600-90

AM Official 6685-90

Open Int. 671-17

Close 671-17

Open Int. 6750-80

Total daily turnover 16,428

TIN (\$ per tonne)

Close 5380-90

Previous 5400-5

High/Low 5350-90

AM Official 5405-10

Open Int. 5400-5

Close 5400-5

Open Int. 5400-5

Total daily turnover 25,882

COPPER, grade A (\$ per tonne)

Close 2541-2.5

Previous 2540-1

High/Low 2540-1

AM Official 2540-1

Open Int. 2540-1

Close 2540-1

Open Int. 2540-1

Total daily turnover 25,882

PRECIOUS METALS

LONDON BULLION MARKET

(Prices supplied by N.M. Rothschild)

Gold (Troy oz.)

Close 322.70

Open 322.70

Close 322.70

Open 322.70

Close 322.70

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Precious Metals continued

GOLD COMEX (100 Troy oz; \$/troy oz)

Sett Day's

Sett Day's

Sett Day's

Sett Day's

Sett Day's

Sett Day's

Sett Day's

Sett Day's

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AUTHORISED UNIT TRUSTS

AIB Unit Trust Managers Limited (100%)
Es. Registered Co. Ltd. (Incorporated in Ireland) 100% owned by AIB

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BERMUDA (SIB RECOGNISED)

| | Net Gross | Comp. Price | Std. Price | Offer Price | + or - - or + |
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GUERNSEY (REGULATED)^(*)

[illegible]

ISLE OF MAN (SUB RECOGNITION)

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JERSEY (REGULATED) (*)**

[illegible]

OFFSHORE INSURANCES

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GUERNSEY (SIB RECOGNISED)

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| Lazard | Prv Port S | 27.4 | 19.8 |
| Lazard | Prv Port S | 21.6 | 17.5 |
| Lazard | J&P | 21.9 | 20.2 |
| Lazard | J&P | 20.3 | 19.8 |

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IRELAND (REGULATED)(*)

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| | IN Price | Other Price | + or - |
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| ATC Fund Management Ltd | | | |
| ATC American Fund | 11.00 | 11.00 | — |
| ATC European Fund | 11.00 | 11.00 | — |
| ATC Global Fund | 11.00 | 11.00 | — |
| ATC Income Fund | 11.00 | 11.00 | — |
| ATC International Fund | 11.00 | 11.00 | — |
| ATC Japan Fund | 11.00 | 11.00 | — |
| ATC Life Insurance | 11.00 | 11.00 | — |
| ATC Multi-Asset Fund | 11.00 | 11.00 | — |
| ATC Real Estate Fund | 11.00 | 11.00 | — |
| ATC Risk Capital Fund | 11.00 | 11.00 | — |
| ATC Small Cap Fund | 11.00 | 11.00 | — |
| ATC Technology Fund | 11.00 | 11.00 | — |
| ATC Value Fund | 11.00 | 11.00 | — |
| ATC World Fund | 11.00 | 11.00 | — |
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Personal Information
 Your Service File No. 7
 Starting Estimated Month
 Your First Estimated Month

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| Workwide Investments | \$8.77 | 10.29 | |
| Management International (Jersey) Ltd | 22.00 | 2.00 | 0.00 |

[illegible]**LUXEMBOURG** (SIB RECORDS)

| | 10k Charge | Est. Price | Std. Price | Order Price | +/- % to B* |
|---|---------------|---------------|---------------|----------------|-------------------|
| AEN AMRO Funds | | | | | |
| 14 Rue Jeanne d'Arc, L-1180 Luxembourg 352 | | | | 42-44 | |
| Latin American Equity | | 69.27 | 69.18 | --- | |
| North America Equity | | 69.27 | 69.85 | --- | |
| Germany Equity | | 69.27 | 69.85 | --- | |
| Europe Bond | | 69.27 | 69.85 | --- | |
| Germany Bond B | | 69.27 | 69.85 | --- | |
| Abstract Fund Wgrs Luxembourg SA (b) | | | | | |
| 15 rue Gaspard L-1527 Luxembourg | | | | 010 352 40-46 | |
| Global Cap Growth | | 3.185 | --- | --- | |
| United States Portfolio | | 3.185 | --- | --- | |
| Germany Portfolio | | 3.185 | --- | --- | |
| Europe Portfolio | | 3.185 | --- | --- | |
| Pacific Portfolio | | 3.185 | --- | --- | |
| Europe Portfolio | | 3.185 | --- | --- | |
| Cap Growth of Income | | 3.185 | --- | --- | |

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WORLD STOCK MARKETS

AMERICA

Oils climb as crude reacts to Iraq move

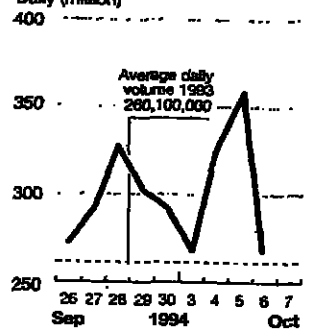
Wall Street

US stocks moved higher yesterday morning, with investors consoled that a crucial measure of economic strength came in below expectations, writes Frank McCarty in New York.

By 1 pm, the Dow Jones Industrial Average was 13.45 better at 3,783.01, and the more broadly based Standard & Poor's 500 was up 1.63 at 454.02. The American SE composite added 0.94 at 454.54 while the

NYSE volume

Daily (million)



Nasdaq composite outperformed the lot with a gain of 3.77 to 747.96.

On the NYSE, advancing issues were slightly ahead of declines by early afternoon on moderate volume of 183m shares.

Amid a week of fretting in the financial markets, the Labor Department disclosed that fewer workers were hired in September than most economists had forecast. Non-farm payrolls grew by 239,000, against a consensus estimate of about 260,000.

Even though the August increase in payrolls was revised sharply higher, the tame headline figure allowed bond prices to stabilise. The yield on the benchmark 30-year Treasury issue receded after touching the worst level since 8.00 per cent level just before the release of the jobs data.

But the relief was qualified, at best. The news seemed likely to avert an immediate move by the Federal Reserve

to put up interest rates, but a tightening did not appear to be too far in the future.

Stocks opened with decent gains, but second guessing among investors quickly pulled the leading indices into negative territory. Towards midday, share prices headed higher for a second time, powered by across-the-board gains in oil-related stocks.

The sector's improvement had nothing to do with the economy or monetary policy. With reports of Iraqi troop movements near the Kuwait border and a subsequent upturn in crude prices, Texaco gained 1% to \$61.4, Chevron 1% to \$43.4 and Exxon 1% to \$58.4.

IBM was also contributed the Dow's advance. The stock added 1% to \$70.4 on reports that the computer maker had sold out its new Aptiva line through the end of the year. But that gain was offset by International Paper, which shed a further 1% to \$75.4. The issue was down from \$78.4 at the beginning of the week amid concern over the impact of another Fed move.

Shares in Unisys continued to recede after jumping about 10 per cent earlier in the week on reports that it was interested in finding a buyer for its defence business. The stock was off 1% at \$11.4.

On the Nasdaq, Broderbund Software surged 3% to \$37.4. Oppenheimer lifted its rating on the issue after the company posted a 51 per cent increase in earnings for its fiscal fourth quarter.

Canada

Toronto overcame early weakness to trade mixed at midday, as some dealers expressed surprise at the strength in New York equities. The TSE 300 composite index was 4.61 lower at 4,271.71 by noon in volume of 27.9m shares.

Of the 14 sub indices, eight touched the upper limit, a 1.1 per cent fall in the industrial products group overpowered the rising transportation and merchandising groups.

Potash Corp of Saskatchewan fell 0.3% to C\$48.7.

Brazil down on strong real

São Paulo stocks dropped 6.5 per cent in a heavy morning sell-off, on analysts' concern that a steady rise of Brazil's new currency, the real, against the dollar could force the Central Bank to take restrictive measures against the influx of foreign funds into the country.

A local news agency report quoted an unnamed source close to Brazil's economic team as saying the government had no alternative to contain the real's rise except to restrict the

inflow of foreign funds.

However, the Bovespa index had recovered half of its early fall by 1300 local time to stand at 1,567, or 3.1 per cent lower at 1,567.2. Traders said that rumours that some banks and brokerage houses were facing financial difficulties had also weighed on prices and that heavy speculation ahead of the futures and options markets settlements on October 13 and 17 had also contributed to the day's weakness.

S Africa golds recover

South African gold shares snapped a four-day losing streak as bullion showed early signs of recovery, but a late rise in the metal pulled them off their highs.

The gold index finished 29 points better at 2,377. Industrial shares rose 9 to 2,377. Industrial shares rose 9 to 2,377. Industrial shares rose 9 to 2,377.

Traders said gold shares had bounced in reaction to recent losses, but had also found renewed support from speculators looking for a commercial rand decline if the financial rand is abolished.

De Beers ended 50 cents better at R101 after an initial rise to R102. Anglo's shed R1 to R233 and JCI added R150 to R106. Gencor rose 15 cents to R147.5. Pick'n Pay continued under pressure, losing 10 cents to R9.50.

EUROPE

Apprehension ahead of US data turns to relief

The story of the week and of this year's apprehension ahead of US economic data, turned to relief yesterday, writes Our Markets Staff.

US payrolls growth came in below expectations. Reports that Iraqi troops were moving towards Kuwait put a damper on bourse proceedings early in the afternoon but, later, lifted crude prices, and some of the oil majors in Europe.

FRANKFURT ended slightly lower on the session, registering a new 1994 official closing low for the third day in a row. The Dax index fell 0.44 to 1,960.59, 2.5 per cent down on the week in turnover up from DM4.4m to DM6.0m.

After hours the picture improved, the blue-chipped Dax moving 12.26 higher to 1,972.85 over 24 hours. Stars of the day included shares recently depressed, like the inter-related Deutsche Bank and Metallgesellschaft, which recovered DM21.30 to DM636.20, and DM11 to DM139 respectively.

Analysts attributed the Deutsche Bank gain to restructuring measures, aimed at helping the bank gain a better market position. Metallgesellschaft said yesterday that its bank debts shrank to DM4.1bn by

FT-SE Actuaries Share Indices

| Oct 7 | Hourly change | Open | 11.00 | 11.30 | 12.00 | 12.30 | 13.00 | 14.00 | 15.00 | Close |
|-----------|---------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| FT-SE 100 | 128.27 | 1284.78 | 1283.52 | 1282.48 | 1282.48 | 1282.48 | 1282.48 | 1282.48 | 1282.48 | 1282.48 |
| FT-SE 250 | 134.04 | 1341.62 | 1340.45 | 1339.11 | 1338.11 | 1337.11 | 1336.11 | 1335.11 | 1334.11 | 1333.11 |

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HEALTH CARE - Cont.

CHEMICALS

ELECTRONIC & ELECTRICAL EQPT - Cont

EXTRACTIVE INDUSTRIES

HEALTH CARE - Cont.

INVESTMENT TRUSTS - Cont.

| Year | GPA | Mean | Range |
|------|-----|------|-------|
| 1967 | 2.8 | 2.8 | 2.8 |
| 1968 | 2.8 | 2.8 | 2.8 |
| 1969 | 2.8 | 2.8 | 2.8 |
| 1970 | 2.8 | 2.8 | 2.8 |
| 1971 | 2.8 | 2.8 | 2.8 |
| 1972 | 2.8 | 2.8 | 2.8 |
| 1973 | 2.8 | 2.8 | 2.8 |
| 1974 | 2.8 | 2.8 | 2.8 |
| 1975 | 2.8 | 2.8 | 2.8 |
| 1976 | 2.8 | 2.8 | 2.8 |
| 1977 | 2.8 | 2.8 | 2.8 |
| 1978 | 2.8 | 2.8 | 2.8 |
| 1979 | 2.8 | 2.8 | 2.8 |
| 1980 | 2.8 | 2.8 | 2.8 |
| 1981 | 2.8 | 2.8 | 2.8 |
| 1982 | 2.8 | 2.8 | 2.8 |
| 1983 | 2.8 | 2.8 | 2.8 |
| 1984 | 2.8 | 2.8 | 2.8 |
| 1985 | 2.8 | 2.8 | 2.8 |
| 1986 | 2.8 | 2.8 | 2.8 |
| 1987 | 2.8 | 2.8 | 2.8 |
| 1988 | 2.8 | 2.8 | 2.8 |
| 1989 | 2.8 | 2.8 | 2.8 |
| 1990 | 2.8 | 2.8 | 2.8 |
| 1991 | 2.8 | 2.8 | 2.8 |
| 1992 | 2.8 | 2.8 | 2.8 |
| 1993 | 2.8 | 2.8 | 2.8 |
| 1994 | 2.8 | 2.8 | 2.8 |
| 1995 | 2.8 | 2.8 | 2.8 |
| 1996 | 2.8 | 2.8 | 2.8 |
| 1997 | 2.8 | 2.8 | 2.8 |
| 1998 | 2.8 | 2.8 | 2.8 |
| 1999 | 2.8 | 2.8 | 2.8 |
| 2000 | 2.8 | 2.8 | 2.8 |
| 2001 | 2.8 | 2.8 | 2.8 |
| 2002 | 2.8 | 2.8 | 2.8 |
| 2003 | 2.8 | 2.8 | 2.8 |
| 2004 | 2.8 | 2.8 | 2.8 |
| 2005 | 2.8 | 2.8 | 2.8 |
| 2006 | 2.8 | 2.8 | 2.8 |
| 2007 | 2.8 | 2.8 | 2.8 |
| 2008 | 2.8 | 2.8 | 2.8 |
| 2009 | 2.8 | 2.8 | 2.8 |
| 2010 | 2.8 | 2.8 | 2.8 |
| 2011 | 2.8 | 2.8 | 2.8 |
| 2012 | 2.8 | 2.8 | 2.8 |
| 2013 | 2.8 | 2.8 | 2.8 |
| 2014 | 2.8 | 2.8 | 2.8 |
| 2015 | 2.8 | 2.8 | 2.8 |
| 2016 | 2.8 | 2.8 | 2.8 |
| 2017 | 2.8 | 2.8 | 2.8 |
| 2018 | 2.8 | 2.8 | 2.8 |
| 2019 | 2.8 | 2.8 | 2.8 |
| 2020 | 2.8 | 2.8 | 2.8 |

BREWERIES

[illegible]

DISTRIBUTORS

[illegible]

ENGINEERING

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BUILDING & CONSTRUCTION

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| S | 1994 | Ytd | 1993 | Diff or | Warrants | | |
|-----|------|------|------|---------|----------|--------|--------|
| | Jul | G's | G's | Pct | Set 17 | Set 18 | Set 19 |
| 369 | 2.1 | 22.7 | 1.2 | 20.5 | 2.2 | 28% | 28% |
| 126 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 127 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 128 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 129 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 130 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 131 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 132 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 133 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 134 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 135 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 136 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 137 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 138 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 139 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 140 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 141 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 142 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 143 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 144 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 145 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 146 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 147 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 148 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 149 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 150 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 151 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 152 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 153 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 154 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 155 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 156 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 157 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 158 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 159 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 160 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 161 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 162 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 163 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 164 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 165 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 166 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 167 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 168 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 169 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 170 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 171 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 172 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 173 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
| 174 | 1.7 | 18.2 | 1.2 | 17.0 | 1.2 | 17% | 17% |
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FINANCIAL TIMES

Weekend October 8/October 9 1994

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Rover workers get 10% pay rise over two years

 By David Goodhart,
Labour Editor

The Rover Group has signalled an upward turn in British pay deals with a two-year award of about 10 per cent for most of its 33,000 employees.

Average settlements in the engineering industry are still running at about the rate of inflation, currently 2.4 per cent. But the Rover deal could exacerbate pay pressures as inflation is expected to increase gently over the coming year and unemployment continues to fall.

Mr Alistair Hatchett, of the independent pay analyst Incomes Data Services, said: "This could be a weather-vane settlement for the private sector and will be taken as a benchmark in the West Midlands."

The pay agreement - the first since the company was taken over by the German car group BMW earlier this year - is a

reflection of Rover's recent success and follows a pay freeze in the first six months of 1993. But the deal will not make it popular with other car companies, such as Jaguar, which begin negotiations this weekend.

The exact size of the rise is disputed. The company says that everyone will receive a 3.7 per cent rise from next month and a further 4 per cent, or the rate of inflation if it is higher, from November 1995.

It also says that some workers will get extra payments for accepting a grading change. Following Rover's "new deal" agreed with the unions in 1992, the company has been phasing out demarcation lines and distinctions between blue and white-collar workers.

The latest move involves merging five manual grades and six staff grades into three joint grades. The unions say that most employees will get an extra pay-

ment of about \$5 a week in the first year and another £1.86 a week in the second for accepting the change.

Mr Tony Woodley, the national motor industry secretary of the TGWU general union, said: "That means that almost all workers will be getting between 9.2 and 11.1 per cent over the two years, with most getting 10.7 per cent."

Mr Woodley said he would recommend the deal for acceptance in a ballot of union members.

He also said that he would be informing his German union colleagues. I G Metall, the motor industry union, puts in its claim for this year's engineering industry pay round next week.

But I G Metall in Frankfurt said last night: "Rover may now be a German company but circumstances are still very different in the two countries."

Rover counts the benefits, Page 6

Lira falls again after police raid Berlusconi business

By Robert Graham in Rome

Police early yesterday raided the Milan offices of Fininvest, the business empire of Prime Minister Silvio Berlusconi, immediately damping hopes that his right-wing coalition's confrontation with the judiciary might be contained.

The raid, in which computerised information was seized, contributed to a fresh fall in the lira, with the Italian currency trading at L1020 to the D-mark, and a slide of nearly 3 per cent on the Milan bourse. The financial markets were also nervous about a senate vote that blocked measures to raise 1995 budget revenues through an amnesty on illegal buildings.

The move by the police, acting on magistrates' orders, followed the decision by the government coalition to send a formal complaint on Thursday to President Oscar Luigi Scalfaro about the behaviour of Mr Francesco Saverio Borrelli, the Milan public prosecutor. Mr Borrelli had said in a newspaper interview that judicial inquiries into corruption at Fininvest were coming close to implicating Mr Berlusconi.

The cabinet asked President Scalfaro to decide whether disciplinary proceedings should be brought against the prosecutor or a criminal prosecution for attacking constitutional authority.

The timing of the police seizure suggests it was linked to the complaint filed against Mr Borrelli. This appeared to be confirmed by information from the Milan magistrates, who indicated the police were seeking floppy discs connected to the activities of Telepiù, the cable television channel in which Mr Berlusconi has a 10 per cent stake.

The magistrates are investigating whether Mr Berlusconi retained secret control of Telepiù through friendly shareholders after he divested 90 per cent of his stake in 60 days under anti-trust laws in 1990. Mr Berlusconi this week denied there had been any impropriety in the transaction.

President Scalfaro has considerable freedom to decide what to do with the complaint against Mr Borrelli. He can play for time by doing nothing. But if he fails to support Mr Berlusconi, he risks undermining the prime minister's already weak position.

In a poll due to be published at the weekend, only 21 per cent of those asked said they would buy a used car from Mr Berlusconi. In contrast, almost 35 per cent said they would buy such a car from Mr Gianfranco Fini, the leader of the neo-fascist MSI/National Alliance and the man who stands to gain most from the prime minister's political embarrassment.

New budget formula, Page 3

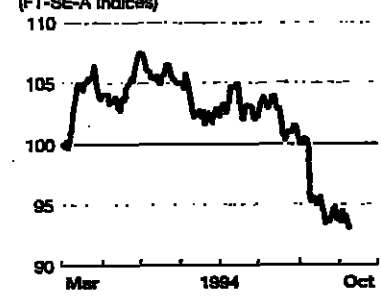
THE LEX COLUMN

A job for the Fed

FT-SE Index: 2998.7 (+14.3)

UK conglomerates

Diversified Industrials relative to the All-Share (FT-SE-A Indices)



Source: FT Graphite

Having spent most of the week convulsed with jitters, financial markets took yesterday's US employment data with remarkable calm. September's rise in non-farm payrolls may have been slightly below market expectations but there is no mistaking the strong underlying economic trend. Headline unemployment is below 6 per cent which brings it close to the level at which inflation threatens by almost any definition. The size of the workforce in July and August was also revised upwards, which will doubtless be reflected in capacity use figures when they are published on Friday. In short, there is still every reason to expect a further interest rate rise soon.

Perhaps the markets' calm yesterday simply reflected the fact that they were oversold before the announcement. But the truth remains that there can be no lasting recovery, at least in the bond markets until investors are convinced the Federal Reserve has done enough to cool the economy and keep inflation under control. It would help if the next rate rise was aggressive, but the upward revision to the third-quarter payrolls suggests several more rate rises may be needed after that.

Amid the confusion engendered by the renewed tension in Kuwait, it is difficult what to make of the slight recovery of the dollar against the yen. It is just possible, though, that the dollar's rise above Y100 reflects the beginning of capital outflows out of Japan. Traditionally yield conscious Japanese investors must find US bond yields of 8 per cent attractive. If so, the market may be able to cope with rising short term rates more easily than hitherto.

Labour's policy

Labour's debate this week about its commitment to public ownership was irrelevant for British industry. Nationalising privatised companies would not be a priority for a Labour government. There are other means of controlling such groups. The conference rhetoric of Labour luminaries was primarily aimed at the utilities. In practice, the gas and water groups, burdened by infrastructure programmes and negative cash flow, are less at risk, but the regional electricity companies, weighed down with cash, swelling profits and bulging chairman's wage packets, are in the firing line. A windfall tax is a distinct possibility. The Recs' managements can see

the risk of a populist administration raiding their balance sheets. The argument that they should do nothing, leaving shareholders to gauge the political risk, is inadequate. They would be better to use their cash to enhance shareholder value now, either through dividends or buying back shares more aggressively. A one-off special dividend has tax advantages, but involves political dangers. Buying back additional shares is a measure which politicians and tabloid headline writers have difficulty lambasting.

If Labour is looking for unpopular companies to target for windfall taxes, it could well turn to the clearing banks, criticised last year for not fully passing on interest rate cuts. A windfall tax would scarcely damage their ability to do business. Such a measure could even be imposed before 1997. After all, the last government to impose such a tax on banks was led by Lady Thatcher.

Investment banking

The job cuts and hiring freezes announced this week in the City and on Wall Street will provide some relief to investment banks in a difficult year, but they are not the complete answer to the industry's problems. Action is also needed to link pay more closely to performance and to reduce the capital devoted to the industry. The snag is that neither will be easy. Most banks pay lip service to the idea that pay should consist of a small fixed element and a potentially large but variable bonus. In that way, costs would fluctuate in line with revenue and profits would be less volatile. But banks are scared that, if they forcibly

introduce such flexibility, they will lose their best employees. Rivals have shown themselves ready to offer star brokers and traders fixed-term contracts and guaranteed bonuses.

A reduction in the capital employed in the industry would be an even better way of boosting profits. Bankers complain that margins in formerly lucrative markets such as derivatives have been squeezed as competition has hotted up. Prospects would improve if weaker groups such as Kidder Peabody were driven from the industry. The problem is that, for every Kidder, there is a deep-pocketed commercial bank keen to expand its investment banking presence. Banks therefore seem left with the option of crossing their fingers and hoping for markets to recover. But if the structural problems are not dealt with now, they will return to haunt them in the next downturn.

Conglomerates

Conglomerates have become extremely unfashionable. The diversified industrial sector - dominated by Hanson and BTR - has underperformed sharply in the latest market downturn.

The worst under-performance followed the margin squeeze displayed in BTR's half-year figures last month, but there is general perception that the sector has gone irredeemably overgrown. BTR and Hanson are too big to do deals substantial enough to generate the superior earnings growth of the past. The Accounting Standard Board has stamped out opportunities for boosting post-acquisition profits through fair value adjustments and other ruses. Conglomerates are suffering in today's low-inflation environment, unable to force up prices when the cost of raw materials is rising.

It is unfair to tar all companies with the same brush. Hanson's problems are not identical to those of BTR; its exposure to coal, timber and chemicals makes it more dependent on commodities prices. Tomkins and Williams Holdings have redefined what it means to be a conglomerate; Williams' new focus has earned it a premium rating stripped from Tomkins after its opportunistic acquisition of Ranks Hovis McDougall. Wassall's high rating demonstrates that acquisitive conglomerates can still win City favour, if they can find earnings-enhancing acquisitions. But Hanson and BTR must rely for their chief attraction on above average yields.

Japan supports South Korean minister as world trade chief

By William Dawkins in Tokyo

The diplomatic contest for top job at the new World Trade Organisation intensified yesterday, after Japan decided to back Mr Kim Chul-su, South Korea's trade minister.

Japan's initiative will complicate the search for consensus between the 123 members of the General Agreement on Tariffs and Trade, which is due to be replaced by the more powerful new body in January.

Until yesterday, Mr Kim was an outsider, backed by Australia and some Asian countries. The endorsement by the world's second-largest economy now gives him the clout to rival the two front-runners. They are Mr Carlos Salinas, former president of Mexico, who is expected to receive US support; and Mr Renato Ruggiero, a former Italian

trade minister backed by the European Union.

Japan's move means the choice of a WTO head, crucial to the organisation's success, now rests on negotiations between the world's three main economic blocs, the US, Europe and Asia. Governments aim to make a decision by late autumn.

Tokyo's public endorsement of Mr Kim, announced late on Thursday by Mr Tomichi Murayama, the prime minister, is the latest sign of how Japan's previously passive foreign policy is becoming less dependent on the US, in favour of its increasing trade and financial ties with Asian neighbours.

"We prefer a candidate from our region," said a Japanese foreign ministry official. "Japan attaches great importance to Asia, especially in terms of trade, and we believe this is a good way

to encourage neighbouring countries to be active in the WTO. It may lead to more trade liberalisation in those countries," he said.

This appears to be a blow to the EU's hopes that Mr Ruggiero would win the support of Mr Kim's backers, as a non-partisan candidate, free from EU interests. Brussels would continue to promote Mr Ruggiero, said an EU official yesterday.

Asian nations have reservations over the candidacy of Mr Salinas because they fear he might be coloured by Mexico's close trade links with the US.

Another example of Japan's desire for an Asian flavour to the WTO is its support for Singapore as the site for the first meeting of WTO ministers. This is in conflict with US insistence that the first meeting should be at the WTO's headquarters, which will probably be in Europe.

Tax cut call

Continued from Page 1

force through the changes he wants was reinforced by the overwhelming defeat of a resolution asserting the dominance of conference delegates over the NEC, which solidly supports the leadership.

However, the continuing strains at the top of the party were underlined by Mr Larry Whitty, the outgoing general secretary, who warned Mr Blair not to ride roughshod over the party's traditions.

"In life and in politics you have to take the people with you. And in that context let us always remember that the trade union base of this party is its greatest strength and not its weakness," he said.

Decline in UK trade deficit

Continued from Page 1

exporters have slightly raised their prices. Import volumes, by contrast, fell 2 per cent in the three months to July compared with the previous three months.

The fall was greeted with surprise in the City, in light of earlier fears that rising demand this year would suck in more imports. But the CSO said the key reason for the fall had been a 9 per cent quarter-on-quarter drop in the volume of imported consumer goods. This may reflect slower consumer spending as a result of recent tax rises. Imports of components, by contrast, grew by 4 per cent in the period, reflecting the pick-up in UK manufacturing.

The exports trend was flattened by a strong performance from the

North Sea sector, which recorded a £1.36bn surplus on oil trade in the three months to July.

Exports also grew in most industrial sectors. Finished goods, which account for about half of UK exports, rose by nearly £0.5bn in the three months to July, compared with the previous three months. Nearly half of this was due to increased car exports to European Union countries, now running 30 per cent higher than a year ago.

Mr Richard Needham, UK trade minister, welcomed the data as evidence that British business was becoming increasingly competitive. Mr Bryan Nicholson, president of the Confederation of British Industry, suggested they indicated that the UK was experiencing an export-driven upturn.

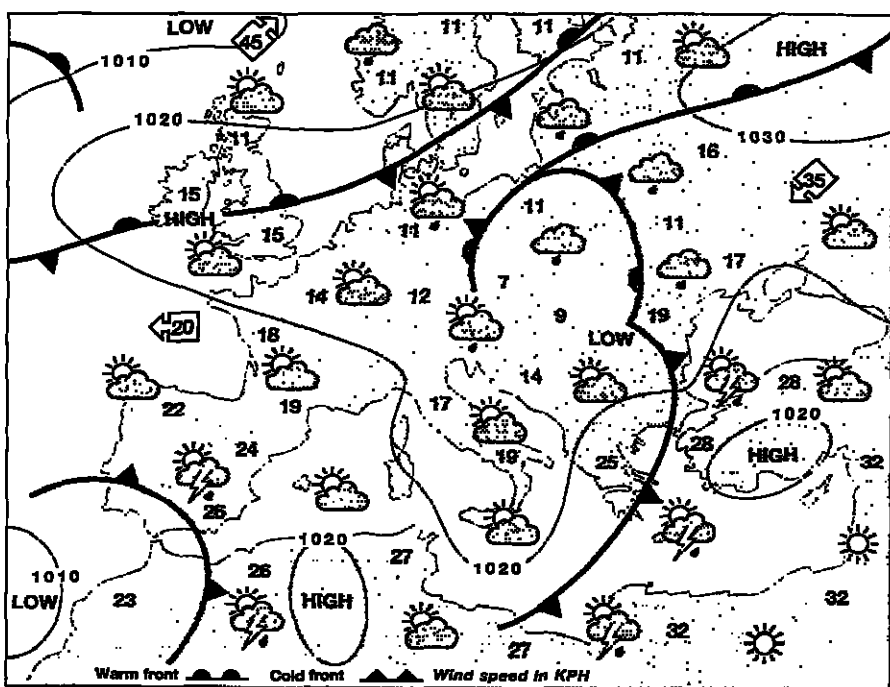
FT WEATHER GUIDE

Europe today

High pressure from Moscow to the North Sea will bring sunny spells to the Low Countries, the Baltics and parts of Russia. France will be sunny with light easterly winds. A few afternoon showers will develop over southern Spain and Morocco, while Hungary, east Austria, the Czech Republic, Slovakia, Slovenia and Romania will have patchy rain. The eastern Mediterranean, Turkey and the Black Sea will have another sunny day with summery temperatures. Cloud and light rain will cover the coasts of Norway, Denmark, southern Sweden and southern Finland, but there will be sunny spells further north.

Five-day forecast

High pressure over Russia is expected to expand and build over Scandinavia, ending northern Europe's unsettled spell. Much of continental Europe will be calm with sunny periods, although there will be a little rain over Poland and the southern Baltics.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

| | Maximum | Minimum | | Maximum | Minimum | | Maximum | Minimum |
|-----------|---------|---------|-------------|---------|---------|-------------|---------|---------|
| Abu Dhabi | sun 36 | 24 | Caracas | show 31 | 23 | Madrid | sun 23 | 14 |
| Accra | show 30 | 24 | Cebu | show 31 | 23 | Manila | sun 24 | 14 |
| Algiers | sun 27 | 14 | Casablanca | show 23 | 14 | Mexico City | sun 22 | 14 |
| Amsterdam | sun 14 | 10 | Chicago | rain 19 | 11 | Moscow | sun 15 | 5 |
| Athens | show 26 | 14 | Cologne | rain 19 | 11 | Munich | sun 15 | 5 |
| Atlanta | sun 25 | 14 | Dallas | sun 23 | 14 | Nairobi | sun 26 | 14 |
| B. Aires | sun 24 | 14 | Detroit | sun 23 | 14 | Naples | sun 26 | 14 |
| Bahia | sun 26 | 14 | Hong Kong | sun 23 | 14 | Nassau | sun 26 | 14 |
| Bangkok | sun 26 | 14 | Los Angeles | sun 26 | 14 | Nice | sun 26 | 14 |
| Barcelona | sun 26 | 14 | Lima | sun 26 | 14 | New York | sun 26 | 14 |
| | | | Lisbon | sun 26 | 14 | Osaka | sun 26 | 14 |
| | | | London | sun 17 | 10 | Paris | sun 17 | 10 |
| | | | Luxembourg | sun 17 | 10 | Pern | sun 17 | 10 |
| | | | Lyon | sun 17 | 10 | Prague | sun 17 | 10 |
| | | | Madeira | show 24 | 14 | | | |

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Weekend FT

SECTION II

Weekend October 8/October 9 1994

Plastic heart of a new age man of many parts

My childhood science books used to portray the human body as a complicated machine. This idea made me wonder why old people could not go to hospital to have worn bits of their body replaced, in the same way as broken-down cars were fixed in a garage. By the time I studied science at university in the 1970s, it was fashionable to look at the body as a whole biological system rather than as a machine with separate parts.

Now, with the proportion of broken-down old people in the population increasing rapidly, the machine analogy is making more sense again. One reason is that modern medicine can indeed provide a wide range of spare parts. Primitive implants are becoming available to replace many human organs: ears, eyes and nose; bones and joints; skin and ligaments; hearts and kidneys.

These implants are made from an astonishingly diverse range of materials: hard metals and ceramics; soft plastics and foams; biological implants made by "tissue engineering" from living cells; even electronic circuits designed to replace failed nerves.

Anyone fitted with all the different spare parts available today would indeed be a bionic man or woman, but with a creaking performance far removed from a sci-fi superhero. For no implant works as well as the original human version.

Although the vast majority of implants have improved the lives of their recipients, there are also failures - some of which leave patients with even more pain and disability than they had before. Indeed suing manufacturers on behalf of "victims" is a lucrative sideline for the American legal profession.

"The problem is that all current devices for all parts of the body have a limited lifetime," says Professor William Bonfield, head of the Interdisciplinary Research Centre in Biomedical Materials at Queen Mary and Westfield College, London. However, as scientists begin to understand which chemical and physical properties of materials make them compatible with the human body, the outlook for more permanent implants is becoming brighter.

"There has been a change of philosophy recently," says Professor Chris Wilkinson, a bio-engineering pioneer at Glasgow University. "You used to try to make your material as inert as possible - and you assumed your engineering skills were better than the body's. Now we accept that the body is more clever than us."

Research today aims to produce implants that knit together with the body's own tissues. The key factor here, according to Professor Colin Humphreys, a biomaterials specialist at Cambridge University, is not so much the chemical nature of the implant as its micro-structure. The material must have a shape and texture that is compatible with living tissues on the scale of a few nanometres - millionths of a millimetre.

We have the technology, we can rebuild the human body. Clive Cookson examines the latest advances in medical science

"If it does not have the right nano-structure, it will not work," he says. A good example of the new focus on micro-structure is Bonfield's project at Queen Mary and Westfield College. "To design from scratch an artificial bone that will fit as well as possible with the real thing," his team has come up with a composite material containing hydroxy-apatite, the main mineral in bone, blended with plastic.

Although hydroxy-apatite has been used before, Bonfield believes his material is the first with the same nano-crystalline structure as natural bone. The result, when it is put next to osteoblasts (bone-producing cells), is that tiny whiskers of bone grow cleanly into the implant. Clinical tests of the material are showing that it can successfully repair the cheekbones of people whose faces have been disfigured by disease or accident. Thirty patients have already received the implants and 400 more are due to take part in an extended clinical trial.

As with most researchers developing bio-materials, Bonfield's goal is to move into hip joints - the biggest sector of the implant market. According to Frost & Sullivan, a Californian market research company, US sales of hip implants will be worth \$310m this year.

Artificial hips, introduced in the early 1960s, give new mobility to 500,000 people a year worldwide whose own joints have been ruined by arthritis and other diseases. The natural hip is a ball-and-socket joint. Its replacement involves cutting off the round head of the patient's thigh bone and hammering in a metal spike to which a new ball is attached; at the same time, the natural socket in the pelvis is cut out and replaced with an artificial cup made from metal lined with plastic. Both components of the artificial joint are conventionally cemented in place with a glue called polymethyl methacrylate.

Total hip replacements have given good results in elderly patients, working well for 10 to 15 years. But they last less well in people under 70, who are more active and put more strain on their hips. Their new joints can fail within five years - usually because the bone shrinks away from the implant, which then works loose.

"The result is that a steadily increasing proportion of our patients are undergoing 'revision' operations to replace artificial hips that have already failed. Altogether about one-third of hip replacements are now revisions," says Richard Coombs, an orthopaedic surgeon at the Royal Postgraduate Medical School, London. "Our aim is the 30-year prosthesis, yet today our youngest patients have a five to seven year revision rate."

Repeated surgery to replace failed artificial joints is not only distressing and risky for the patients but also expensive. The National Health Service would save an estimated \$30m a year if it did not have to carry out second and subsequent hip replacements.

Much research into orthopaedic implants is aimed at giving the metal components a porous surface coating - of hydroxy-apatite, for example - which will encourage the patient's hip and thigh bones to bind naturally with the implant. To stimulate the osteoblasts, the implant may also be impregnated

with natural chemicals called growth factors. This should give a stronger bond than any synthetic glue.

Patience and dogged persistence are essential requirements for any one developing implant materials. Proving their safety and efficacy inevitably takes many years. For example Bioglass, a ceramic bone

substitute just beginning to come into use in the US, was invented by Professor Larry Hench at the University of Florida in 1969.

Professor Per-Ingvär Brånemark of Gothenburg University, Sweden, also shows the persistence required in bio-materials research. As a young medical scientist working on laboratory animals in the 1950s, he

discovered that titanium, a light metal much favoured by the aerospace industry, could secure implants firmly in living bone.

Brånemark first used the system in 1965, to fix the most humble of implants - false teeth - with a titanium screw into a man's jaw bone. Twenty-nine years later, that patient's dentures are still firmly in

place, and 300,000 other people have had dental implants secured with the same system.

The weight of clinical evidence did not convince the world's dentists that the Brånemark system was safe and effective until the 1980s. And only in the mid 1990s are orthopaedic and plastic surgeons beginning to take titanium screws seriously, as a way to fix artificial joints and other body parts permanently to patients.

"No one knows how and why the system works so well," Brånemark says, "but empirical findings like this are important in medicine. Apparently, the titanium surface is covered by a thin oxide layer whose crystalline structure happens to be completely compatible with bone; at the same time it contains no chemicals capable of triggering an adverse reaction from the body's immune system."

Implant development is not only slow but may also be legally and financially hazardous. The most spectacular demonstration of the dangers is the \$4m fund proposed by Dow Corning and other US manufacturers of silicone breast implants, to settle litigation by thousands of women who were allegedly harmed by the devices. Although the companies maintain that there is no scientific evidence to link their products to the plaintiffs' autoimmune diseases and other medical problems, some implant recipients have undoubtedly suffered great pain - and their lawyers have successfully portrayed them as innocent victims of corporate greed and negligence.

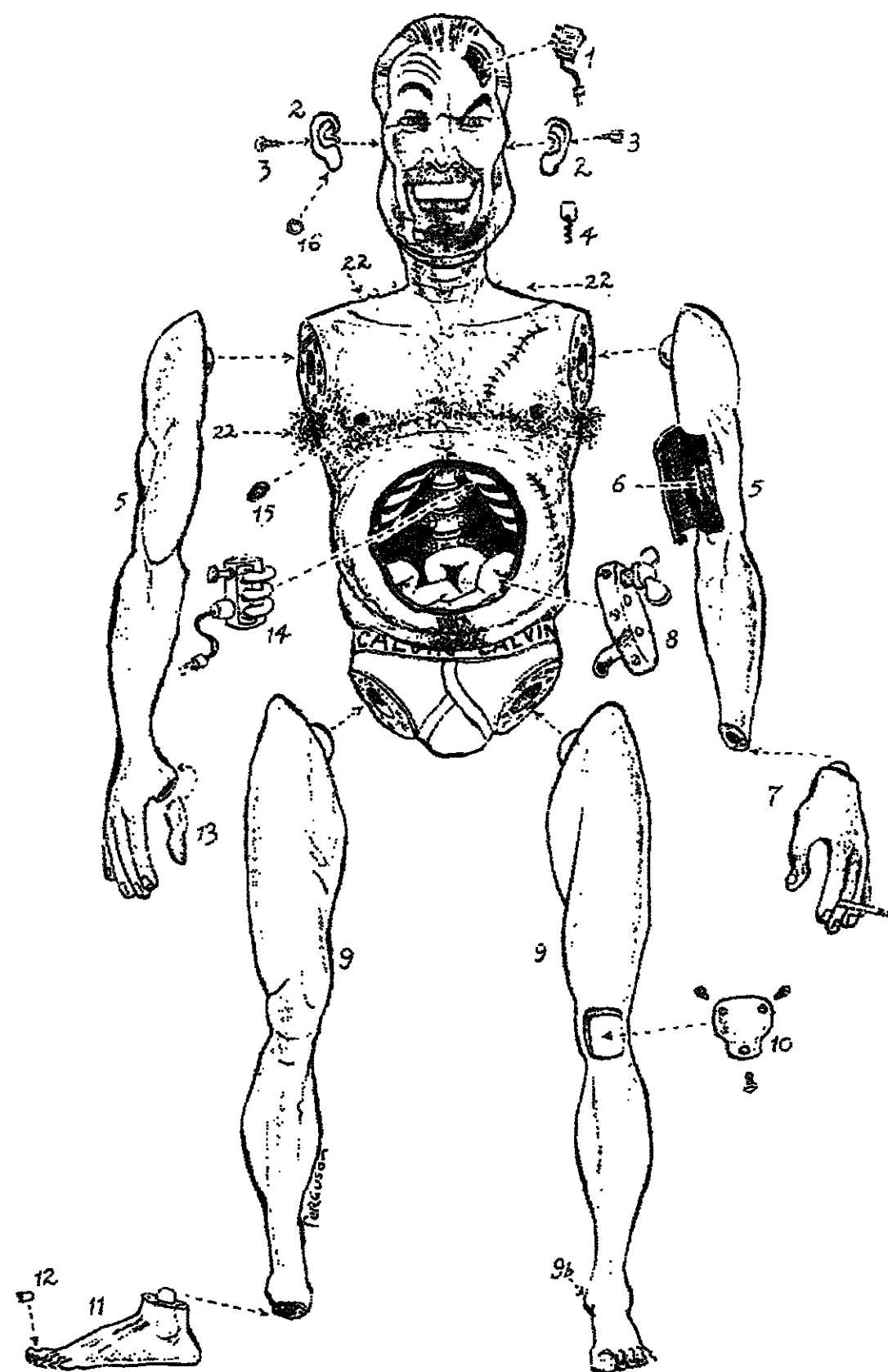
The silicone saga has frightened several companies off the whole implants business. "We have pulled out of making materials for medical implants altogether, and a number of other companies have stopped developing medical implants in the US because, with the potential [legal] liability, it is not worth the risk," says Dr Ralph Cook, Dow Corning medical director.

Another corporate victim of the implants business is Vitek, a Texan company founded by Dr Charles Homsey to make implants out of a material called Proplast which he has been developing for more than 20 years. Vitek went bankrupt in 1990, crushed by the weight of lawsuits by patients who suffered adverse reactions - including severe and intractable pain - after receiving Proplast jaw implants.

Homsey believes that the fault did not lie with the material itself but with the way it was used. He has shown his faith in it by setting up a new company in Switzerland, Promotus, to continue developing and marketing Proplast (a porous matrix of Teflon plastic with hydroxy-apatite). Surgeons in the Netherlands are carrying out a long-term trial of hip implants coated with Proplast.

So much for passive implants to replace failed bones and joints. Research into active implants, which substitute for nerves and muscles, is less advanced but

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The Long View / Barry Riley

Shadow of a smile



There was something strange about Dr Mortimer Duhm when he passed through town this week. He was smiling. Mori Duhm is intolerable during a bull market, but in bearish conditions he comes into his own. And you have to admit that this year he has been absolutely right. "The US Treasury long bond yield has backed up from 6.2 per cent to 8 per cent since January," he pointed out. "It's proportionally almost as big a shift as before the 1987 stock market crash when the rise was from 7.3 to 10.3 per cent between January and October."

It is true, I said, that *Fortune* magazine has calculated this year's paper losses at \$600bn on US bonds and \$1,500bn on bonds world-wide. On average, everybody in the world has lost \$280. But surely the leveraged hedge funds which caused a lot of the instability were out fairly early on. Why are we suffering a second stage in the collapse this autumn?

"They weren't the biggest players, even though they got most of the publicity," said Duhm. "There were also the proprietary trading desks of the big securities firms and banks. The bad news is still only trickling out, as with the profit warning from Hambros bank in London this week and the staff redundancy warning at Goldman Sachs. "Then there were the US commercial banks, which were offered a free ride along the yield curve in 1992 and 1993 by the US Federal Reserve. Few of them have yet owned up to their true losses. They are what are called capitulation sellers. They hold on and hold on, hoping for a rally, but finally give up. They may be forced into a clean break before the calendar year-end."

The obvious weak point about the 1993 bond bull market, I said, was that the bonds were not going into firm, long-term hands. UK gilts were hardly being bought by British pension funds, which took just \$2.7bn worth, but very largely by unspecified foreigners who

vacuumed up gilts worth £16.6bn.

"And the OECD countries are trying to dump another \$400bn-plus of bonds into these devastated markets this year," added Duhm. "It's crazy. Now, Italian government debt is yielding 12 per cent and there are scuffles in the streets in Rome outside the prime minister's office."

But, I pointed out, at least the US equity market had been holding up, almost against the odds. As recently as September 15, the Dow Jones Industrial Average was only 25 points short of its all-time high, and it was still only 5 per cent off that peak.

"But haven't you noticed how artificial that performance is?" replied Duhm. "The market leaders are being propped up by take-over speculation and maybe by actual manipulation. Elsewhere, the transports and the utilities are off more than 20 per cent since last winter. American investors have been selling some of the overseas stock markets like Hong Kong, which is down a quarter this year, and the European markets, many of which are down by between 15 and 20 per cent from the peak in local currencies. The US market is being shielded, but it can't last long."

There had been strong echoes of 1987 in all this, I said. That year's similar bond market collapse reflected the way investors became scared about rapid economic growth and rising inflation. Global economic growth was around 4 per cent, a level to which we are only now getting back.

In 1987, however, the distortions were rather more extreme: the ratio of the US Treasury long bond yield to the US equity market dividend yield rocketed from under 3 to over 4, whereas it is now about 3.3. Although that is still much higher than at any time since 1987 it does not indicate another full-blown crash so much as a more modest correction.

"You're an optimist," Duhm declared. "Remember that the scale of the required equity market adjustment seven years ago was moderated by a

simultaneous bond market recovery. But conditions in the global bond market today are uglier. If the US long bond yield goes to over 8 per cent, then the required correction in equities on Wall Street could still be 25 per cent."

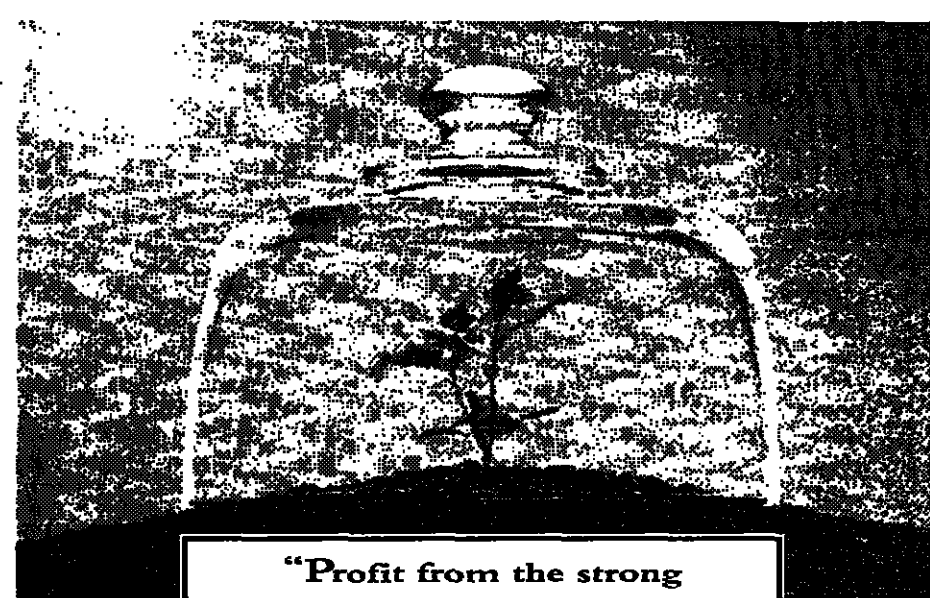
"Some of the other pieces of the 1987 jigsaw might also fall into place. The Federal Reserve could be just about to raise the discount rate again, as it did in September 1987. All we would then need would be an unexpected German tightening."

"And finally," grunted Duhm, "we have the derivatives factor. Portfolio insurance was another of the sub-causes of the 1987 disaster. In seven years, the rocket scientists have had plenty of time to plant some much bigger ticking bombs. We don't for sure know what they are, but we shall be lucky if none of them goes off. For instance, look at the billions in untradeable instruments in the mortgage-backed securities market, where Kidder Peabody is being hailed out by its wealthy parent, General Electric."

But a lot of this was just scare talk, I protested. There were many cases of foolish corporate treasurers caught by derivative positions that went the wrong way, but this was not the same as systemic collapse. Moreover, for every widely-reported loss, somebody somewhere was quietly making a profit.

Mortimer Duhm snorted. "The system can only learn from its mistakes," he snapped. "The derivatives markets are only as strong as their weakest links. They are going to be tested. So are governments, as they are pulled two ways. They know they have to stop burying the world in bonds and forcing real interest rates ever higher. On the other hand, they perceive their response in 1987, in cutting short-term interest rates and boosting liquidity, as a mistake which generated an inflationary boom and bust. The markets will have to decide for them."

He added, "But when a big investment bank folds, or the first western country re-schedules its debt, that could be a major buying signal." I swear that Dr Duhm almost smiled again.



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MARKETS

London

Profit warning hits dealers where it hurts

Andrew Bolger

People in the City of London are much like those anywhere else: bad news seems worse the nearer to home it strikes. This was apparent in the reaction to developments which brought the recent weakness of the bond and equity markets all too close to their trading screens.

The FT-SE 100 fell 42.8 points on Monday after S.G. Warburg, the US's largest investment bank, warned that its interim profits would be more than halved because of a plunge in profits from trading in bonds, equities and derivatives. The next day another rival merchant bank, Hambros, said it had also suffered losses on the bond market and would make only about half of last year's interim profits.

Traders were suddenly faced with the worrying thought that highly paid jobs might be at risk in the Square Mile, which last year enjoyed a bonanza from the surging equity market. There appears to be little

immediate prospect of widespread lay-offs, but bonuses seem certain to be a pale shadow of the previous year's bounty.

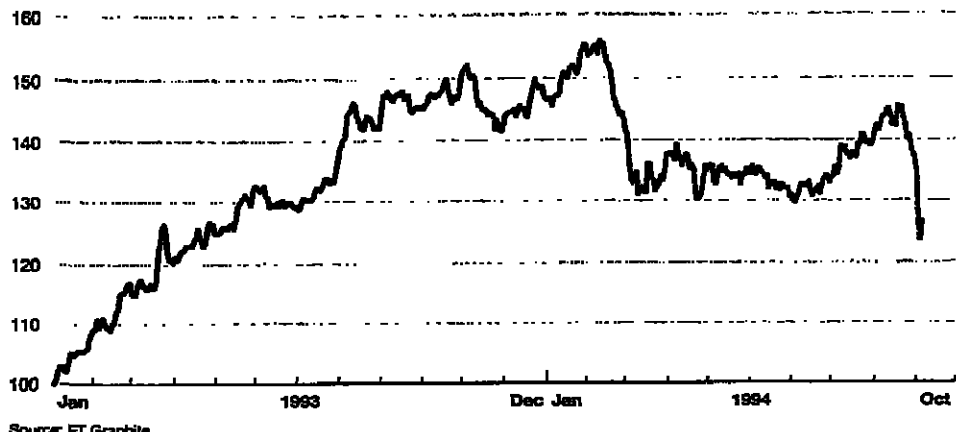
One merchant banker commented: "After the party of '93, comes the hangover". And indeed the chart shows that the merchant banks sector has outperformed the market in the past two years, even after this week's downward correction. However, it is easier to take such a philosophical stance if - like the banker in question - one is not too directly exposed to the bond and equity markets.

Warburg has followed the example of the big US investment banks, which offer clients trading services as well as fee-based advice. These US banks have also recently suffered big losses on the trading side, and greater volatility in profits seems an inevitable consequence of adopting such a strategy.

There remains plenty of corporate activity around - not least new issues. KPMG Peat

Merchant banks falter

Merchant Banks relative to the All-Share (FT-SE-Actuaries Indices)



Marwick forecast this year was still set to break records for flotations, in spite of issues being pulled and a disturbing level of profit warnings from recent candidates. So far this year, KPMG estimates that a total of £7.9bn has been raised from 182 new issues, and it expects that a pick-up in activity before the November budget will put the final tally comfortably ahead of the 1993 record of £9bn.

KPMG said investors who had had their fingers burnt would be particularly wary and some companies would face an uphill struggle to convince investors that they were of a suitable size and quality to join the main stock market.

One company that will easily overcome the scale barrier is British Sky Broadcasting, the satellite television company which confirmed that it plans to stage a share issue on the

London and New York markets. The issue, provisionally programmed to take place before Christmas, is expected to involve the sale of up to £1bn of new BSkyB shares, or 20 per cent of its enlarged equity, valuing the company at just under £5bn.

Meanwhile, the equity market's movements continued to be dominated by bonds. As well as the Warburg announcement, Monday's plunge was attributable to weakness in gilts after worryingly high UK money supply figures and the increased concern over inflationary pressures in the US.

An unconvincing 18-point rally in thin trading on Tuesday was followed by a 45.5-point downward lurch on Wednesday, when strong growth in US factory orders heightened fears that US interest rates would have to rise soon. The FT-SE did regain 28 points on Thursday, mainly because of a dip in UK manufacturing output in August suggested there was less pressure to raise UK interest rates again. Yet traders are fixated on Wall Street. Only when yesterday's US payroll and unemployment data were received without the feared rise in the Federal Reserve's interest rate did the market relax, to close 14 points higher - down 27.6 on the week.

The uncertain outlook is best illustrated by the huge range of year-end forecasts for the FT-SE. James Capel, the UK's biggest broker, downgraded its target to 2,840, but some brave souls are still sticking by 3,600. Robin Aspinall, Pamure Gordon's bearish analyst, started the week boasting that his year-end forecast of 2,800 was the only one in the City not to

need changing this year, but after Wednesday's rout was reminding institutions of his "ultimate target" of 2,200.

Aspinall points to the UK car sales: "While consumers have stopped buying cars (personal purchases were 4.5 per cent lower in September than a year earlier), companies are still buying enough for their fleets to boost total sales by 6.5 per cent. Companies' finances are in better shape than consumers', but that cannot last for long without the consumers' help. We are heading for a consumer-led recession."

J. Sainsbury, the UK's largest grocery retailer, would not subscribe to such a gloomy conclusion but nevertheless continued its diversification away from the UK food retailing market by taking a £205m stake in Giant Food, a Washington DC-based supermarket chain. The deal is Sainsbury's second move into the US, after taking control of the Shaw's supermarket chain in the north-eastern US in 1987. It gives the UK retailer a strong position on the eastern seaboard.

A City crash would also be bad news for Vendôme, the luxury goods group, which this week paid an undisclosed sum for James Purdy & Sons, Britain's most famous sporting gunmaker. In spite of prices which range up to £40,000, there is an 18-month waiting list for the shotguns, which Purdy has been making for 200 years at its premises in London's Piccadilly.

Or perhaps not? Given the feeble state of the financial markets, perhaps even unemployed stockbrokers would prefer to blow some of their pay-off on blasting birds...

Serious Money

A little knowledge is a sensible thing

Gillian O'Connor, personal finance editor

Options trader, quantitative analyst, property economist, pensions manager, swaps trader, foreign exchange dealer, investment manager, head of high yield and distressed debt: this list is not some yuppie equivalent of "tinker, tailor, soldier, sailor"; it reflects the new student intake at London Business School's investment management course.

Tuesday evening this week found all these high-powered, highly-paid students solemnly tossing a pair of dice 10 times to simulate probable portfolio returns. More prosaic moments dimmed home such useful messages as:

- Risk-tolerant and long-term investors prefer more equity.
- Investors with real liabilities prefer short gilts to long (or index-linked).
- Investors with nominal liabilities prefer to match.
- High-tax investors prefer short gilts to long gilts.

Most serious private investors would have found the seminar illuminating, but one residual query is obvious: to what extent can even a rich individual make use of investment theory intended for professionals managing multi-million pound portfolios?

You might well run your own investment portfolio very differently from that of a pension fund or unit trust. But the more you understand about the characteristics of different types of security and the way professional investors use them, the better. Knowledge might not help you to make money - but it should help you to avoid losing it. And steering clear of pitfalls plays a large part in successful investment.

Take risk, for example. Most sensible investors take some risks, but they do not take risks which are at odds with their objectives or unlikely to offer a commensurately greater reward.

It would be stupid to buy a share that you expected at best

to provide the same return as a gilt held to maturity. Since the return on the share is uncertain, it becomes a sensible choice only if you expect it to produce a higher return than the safer alternative. Diversification helps reduce risk.

Such basic cautions are as useful to the individual investor as they are to the professional. They may seem blindingly obvious, but too many people still regard buying shares as the financial equivalent of a white-knuckle ride without a safety net: a test of machismo. Unsurprisingly, such investors tend to end up losing money.

□ □ □

Emerging stock markets are one type of investment where risk/return calculations are particularly relevant. After a hectic rise in 1993, the markets - which include those in the fast developing countries of Asia, Latin America and central and eastern Europe - have first fallen sharply and then recovered so far this year.

There is at present a heated debate among professional investors as to whether emerging markets represent good value at their present levels. What is slightly chastening about this debate is that such intelligent people can use the same evidence to come to opposite conclusions.

Two recent papers sum it up. "Has the gravy train been and gone?" asks David Shaw at Legal & General.

His answer is that although there continues to be a strong, compelling secular case for emerging markets, the purely cyclical justification is near the end of its shelf life. In other words, they are still attractive in the long term, but investors should be ready to take profits in the short term.

Shaw's immediate worry is that US interest rates will rise enough next year to pull mutual fund money back home. If the Fed funds' rate

tops 6 per cent (against the present 4.75 per cent), that will trigger "the US private investors' liquidity preference". So the little old lady from Pasadena will call her wandering dollars home from Rio and Beijing. And the long feared global capital shortage will become reality.

Over at Independent Strategy, David Roche has an answer to this fear. "The global capital market is like a bath that is being tipped towards the deep end of high returns in the restructuring economies," he says.

Capital will be sucked out of the rich countries and fed into more productive investments in infrastructure and technology in the emerging economies. And "the existence of hedge funds and derivatives guarantees that, when the bath tips, the water will slosh towards the productive and fast, though perhaps with considerable volatility."

Since the rewards look good enough, investors will accept the risk. But mind your eye.

This is one of those pleasing occasions where private investors are actually placed better than professionals. The two Davids both agree about the long term attractions of emerging markets, and any sensible private investor would put money in emerging markets only on a long term basis.

Hoping to hit the jackpot by trading in and out of this kind of market is a mug's game. But owning shares in an emerging markets trust is the mark of a canny long-term investor.

□ □ □

Are personal equity plans a tax break used only by the rich? Autf is keen to point out that 50 per cent of unit trust holders are basic-rate taxpayers. Yes, but...

One of the worries about Peps is that they are often sold to people who are unlikely to benefit from them - such as basic-rate taxpayers.

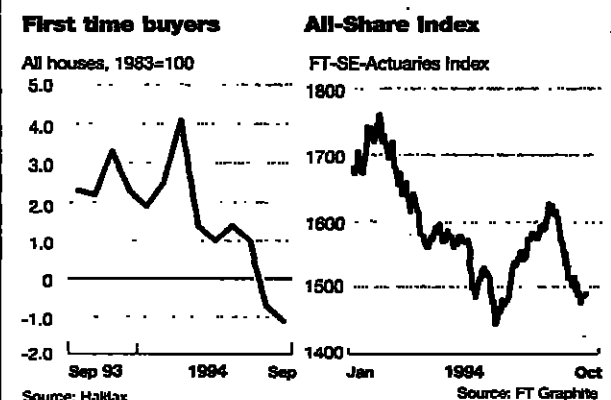
HIGHLIGHTS OF THE WEEK

| | Price | Change | 1994 | 1994 | |
|---------------------|---------|---------|---------|---------|------------------------------------|
| | £/share | on week | High | Low | |
| FT-SE 100 Index | 2998.7 | -27.6 | 3520.3 | 2876.6 | Fears of US rate rise |
| FT-SE Mid 250 Index | 3447.5 | -47.3 | 4152.8 | 3383.4 | Absence of buyers |
| Ashted | 441 | +11 | 454 | 333 | Confident sign |
| BT | 380 | +16 | 486 | 353 1/2 | Upgrades/figures due Nov 10 |
| Bank of Scotland | 194 | -13 1/2 | 247 | 172 1/2 | Interim dividend disappoints |
| Cannon St Invs | 13 1/2 | -14 | 39 | 11 1/2 | Profits slide |
| Commercial Union | 519 | +16 | 701 1/2 | 481 | Rights issue success |
| GTN | 279 | -31 | 326 | 217 | Current trading below expectations |
| IKM | 596 | -20 1/2 | 660 | 510 1/4 | Ford production cuts |
| Hambros | 233 | -29 | 473 | 221 | Profits warning |
| Lucas Inds | 177 | -19 | 238 | 158 | Rights issue worries |
| Reuters | 446 1/2 | -29 | 539 1/2 | 424 | Knock-on from banks weakness |
| Smith New Court | 324 | -50 | 496 | 324 | Volatility, but thin, markets |
| Storehouse | 203 | +14 | 252 | 189 | Favourable trading statement |
| Warburg (SQ) | 587 | -83 | 1012 | 569 | Profits warning |

AT A GLANCE

Finance and the Family Index

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House prices rise, house prices fall

The two largest building societies disagreed on the direction of house prices last month with Halifax, the biggest, reporting a modest rise of only 0.1 per cent in September compared with the previous month. But Nationwide recorded a fall of 2.9 per cent - the greatest monthly drop for almost four years. Prices paid by first-time buyers rose in September by 0.9 per cent, according to Halifax.

Mortgages, Page VII

Bears scared by US bogeyman

The UK stockmarket suffered another queasy week, as disappointing results showed up in its own back yard: the upset at Warburg prompted a flurry of rumours about other securities firms' probable results. Bears then started looking across the Atlantic for new sources of worry - and US interest rates became the new bogeyman.

Info' fund put on hold

The launch of the infrastructure investment trust by BZW and Société Générale Strauss-Turnbull is being postponed until the new year because of the continuing poor market for new issues. The trust plans to specialise in emerging markets' companies involved in advertising, telecommunications, software, broadcasting, and other elements of the "information infrastructure". David Cohen, of SGST, said that although the trust might have achieved its stated minimum target of £40m this autumn, he thought investors would be more confident in 1995.

New Trust Launches, Page IX

Smaller companies suffer

Smaller company shares continued to suffer this week. The Hoare Govett Smaller Companies Index (capital gains version) fell 2.3 per cent to 1637.33 over the week to October 6.

Next week's Family Finance

There are huge numbers of offshore-listed unit and investment trusts available to investors in the UK, some of which offer exciting opportunities you cannot find on-shore. But where can you find information about them, and how safe is your money?

Wall Street

Endless growth, full employment, utter gloom

These can be confusing times for anyone who follows Wall Street. Consider this: the US economy is in its fourth year of growth and about to enter a fifth, corporate profits are healthy, consumer spending is strong, inflation is low, and the expansion in the labour market has pushed the national unemployment rate down to a level low enough for some analysts to claim that the economy is close to full employment.

Yet, instead of celebrating their good fortune, investors in the US stock and bond markets are unhappy. Yesterday's seemingly good news from the September employment report - non-farm payrolls rose by 239,000 and the national jobless rate dropped from 6.1 per cent to 5.9 per cent, its lowest level in four years - was greeted with a marked absence of enthusiasm on Wall Street.

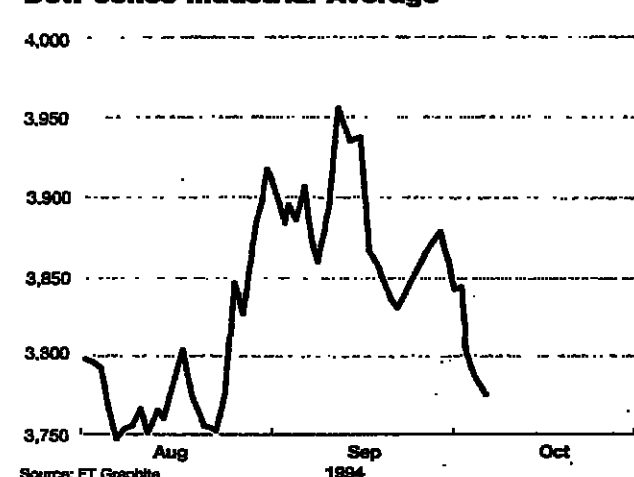
After an initial rally, bond prices and stock prices fell back yesterday, and were either flat or below their opening values by midday. Stocks took a beating this week because of fears that the economy is growing too strongly,

and bonds are trading close to levels where the yield on the 30-year issue flirts dangerously with 8 per cent, a mark many analysts label "psychologically important". (This means that investors will have a nervous breakdown and sell everything in a wild panic the moment the yield rises above 8 per cent.)

At least the bond market's discontent makes sense. Rising economic growth almost invariably translates into higher inflation, and inflation undermines the value of fixed-income assets such as government securities. The fact that inflation is low today is not reassuring - it is the prospect of higher inflation tomorrow, and next year, that has the bond market rattled.

The explanation for the stock market's behaviour is less straightforward. Although a strong economy and rising employment means higher corporate profits, equity investors - like their counterparts in the bond market - are looking forward six or 12 months. What they see ahead is a worrying reversal in both economic and company earnings growth, a reversal engineered

Dow Jones Industrial Average



by the Federal Reserve, which has raised interest rates five times this year in an attempt to slow the economy and restrain inflation.

The immediate fear in both markets is that the Fed will raise rates a sixth time, possibly as early as next week when the government releases the September inflation figures. In fact, for much of this week, investors were concerned that the Fed would tighten monetary policy yesterday, after the jobs data were released.

Although the employment report failed to trigger a rate rise, it proved to be a mixed blessing for markets. The 239,000 rise in non-farm payrolls was smaller than forecast, but for anyone worried about jobs growth this news was offset by upward revisions

in the previous estimates of July and August payrolls. The revisions meant that 106,000 jobs were created this summer of which the markets had been unaware.

When combined with the unexpected drop in the national unemployment rate to 5.9 per cent, the September report was unsettling news. Analysts said yesterday that if the figures were not had enough on their own to prompt an immediate Fed rate increase, they certainly increased the pressure on the central bank to raise rates. If next week's inflation numbers come in above the forecasts, analysts are convinced that the Fed will tighten policy.

A sixth interest rate increase in eight months would spell trouble for stocks, which after a solid third quarter (the Dow Jones Industrial Average rose 6 per cent between July and September) are looking vulnerable to a sharp sell-off.

If the Fed does act, a rate rise will spoil what should be another encouraging quarterly reporting season. Since the Fed first put up rates in February, the one factor sustaining

share prices has been corporate profits, which have grown steadily.

Soon that crutch may be removed. At some stage, higher interest rates will effect the economy and earnings. So far, only two sectors have felt the sting: the Wall Street investment banks and brokerage firms, which have seen their profits from securities trading, underwriting and broking plunge, (on Thursday Salomon said it would report a loss of about \$100m in the third quarter because it had lost money trading its own capital in the markets), and the money-centre banks, which have been hurt by lower securities trading profits.

Eventually, other industries will start to suffer. Analysts warn that this could happen as early as the first quarter of next year. It is these warnings of trouble tomorrow that are depressing prices today.

Patrick Harverson

| | | |
|-----------|---------|---------|
| Monday | 3346.89 | + 63.79 |
| Tuesday | 3801.13 | - 45.76 |
| Wednesday | 3787.34 | - 13.79 |
| Thursday | 3775.56 | - 11.78 |
| Friday | | |

Bottom Line

Elsevier digs for electronic gold

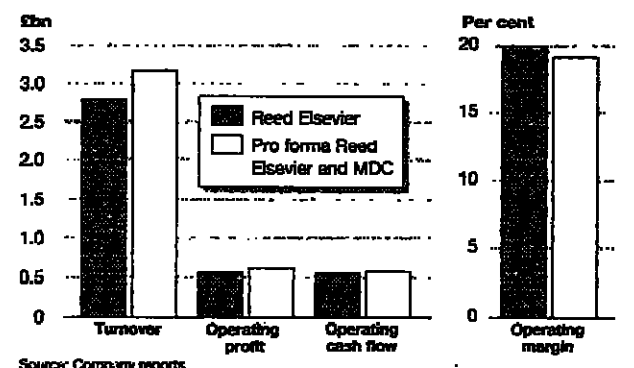
Concorde. On the flight, he polished a presentation designed to convince City analysts and institutions that the group had pulled off an unexpected coup - winning control of the Ohio-based business in spite of rival offers from Times Mirror, the US media group, and Thomson Corporation of Canada.

After hearing Reed Elsevier's financial and strategic arguments, most analysts have welcomed the deal, which is to be financed from cash reserves and £1bn of borrowings.

"They have won access to a fast-growing electronic distribution network - that's the way forward for the group's professional and scientific publishing businesses," says Chris Munro of Hoare Govett.

Her view is echoed by Louise Barton, media analyst at Henderson Crosthwaite. She says concerns at MDC's price have been soothed by forecasts

Before and after the deal



showing interest cover will remain above six times despite the near doubling of net debt to £1.2bn.

"This is a sound strategic fit and the funding is well within the constraints imposed by the balance sheet," she adds.

Nevertheless, shares in Reed

International and Elsevier, which merged last year, fell after Moody's put its long-term debt ratings on review for possible downgrade.

While admitting that gearing of 90 per cent looks steep, Nigel Stapleton points out that the group's strong cash flow -

£217m at the half year stage - should enable it to pay down a large part of the debt within three years.

The shares have since stabilised and should bounce back if MDC delivers the growth expected by its new owners.

The electronic publisher is likely to contribute about \$75m of profits and \$612m of sales next year - pushing North American turnover close to 50 per cent of the group total.

By amortising a \$1.27bn slug of goodwill, Reed Elsevier will enjoy tax relief on those profits and ensure the deal is earnings enhancing.

"There are clear financial advantages," says Frans van Schaik, of Barclays de Zoete Wedd Nederland. "It should add about 3 per cent to earnings per share next year."

On his forecasts, full year eps would rise from 41.5p to about 43.2p. Other analysts

predict an even larger jump to 49.5p by the end of 1995.

Strategically, the prospects are also alluring. MDC's two main businesses - Lexis and Nexis - look set to grow rapidly. Demand for Lexis, the on-line legal service used by 20 per cent of US lawyers, is expected to increase almost 10 per cent next year. Nexis, the business information arm, has access to more than 4,500 databases and is sold worldwide.

More importantly, they offer an electronic highway for Reed Elsevier's high-margin scientific and professional publications, which could be transferred from hard copy by the end of the decade.

That strategic shift looked some way off last weekend. But the MDC deal has enabled the Anglo-Dutch group to fulfil its ambitions earlier than expected.

"Reed Elsevier will be able to better realise MDC's tremendous growth potential," says Steven Mason, Mead's chairman. "The acquisition puts it in a unique position in a rapidly developing industry."

Tim Burt

FINANCE AND THE FAMILY

Commodities – a stake in the real world

If you're bored with equities, why not invest in natural products?
Scheherazade Daneshkhu and Bethan Hutton examine the prospects

Forget stocks and shares: the latest investment theme is real products that you can eat, burn, or make things with. Fund managers are saying that the world economic recovery will increase the demand for commodities – mining and agricultural products as diverse as zinc, oil, gas, rubber, soya beans, sugar and pork bellies – and drive prices higher.

The other big idea is that because the prices of commodities are correlated inversely with equity and bond prices – so that commodity prices rise when equity and bond prices are falling, and vice-versa – the overall volatility of a portfolio should be reduced.

A commodity element in a portfolio is supposed to act as a hedge against inflation, too. This is not just because prices of real assets like commodities tend to rise in line with inflation; in fact, rising commodity prices are a factor in generating inflation.

The worry about investing in commodities now is that the prices of several major commodities – particularly coffee and copper – have had spectacular increases already this year. Cynical investors might wonder if, once again, they are being invited to board the bandwagon near the top of the hill just in time to start heading down.

But Ronald Gould, of BZW Investment Management, argues that while a few individual commodity prices may have raced ahead, commodities as a whole are up only 5 per cent so far this year. Indeed, if you take a 12-month view, they are actually down slightly.

■ Investment trusts
Until now, there have been few investment trusts offering the private investor exposure to commodities. The nearest is Julian Baring's Mercury World Mining trust, launched about a year ago. But two London investment managers are hoping to catch the growing interest in commodities by launching new investment vehicles.

Fleming is in the early stages of preparing a natural resources investment trust, while BZW is a little further ahead with its commodities trust (while this actually is a Jersey incorporated investment company, it will be listed on the London stock exchange and behave just like a normal investment trust). Institutional investors have committed themselves to buy shares worth just under £70m in this fund; the offer for private investors closes later this month.

Neither Fleming nor BZW will invest in physical commodities – no warehouses piled

high with coffee beans or tankers full of oil. That apart, the two funds will take very different approaches to the sector. BZW's strategy is based on using derivative products to gain exposure and it aims to beat the Goldman Sachs commodity index. While some risk-averse investors may be alarmed by the very word "derivatives", Gould stresses that BZW will not use these to gear up the fund.

Instead, the managers will buy mainly loan notes, where the return is linked directly to the price of an individual commodity or index, or commodity-linked swaps, which are more speculative except that BZW will back them with cash in short-term money market instruments.

The fund's model portfolio will have just over half its assets linked to oil and gas, with smaller amounts in livestock, agricultural commodities, industrial and precious metals. The asset allocation is similar to, but not identical with, Goldman Sachs' proportions.

Fleming, on the other hand, is planning to get exposure to commodities by buying shares in companies around the world which are involved in the extraction, cultivation and processing of natural resources.

The managers will have an industrial bias, concentrating on oil, gas and non-precious metals rather than the more glamorous gold and platinum. The idea is to ride the commodities cycle, so the fund will have a limited life of between three and seven years. This allows the managers to sell up at the most opportune moment.

BZW's minimum investment level has been set at £5,000 in order to exclude small-scale or novice investors. The fund is aimed at institutions or sophisticated private investors looking for diversification opportunities. The prospectus states quite clearly that the trust "should be seen as complementary to existing investments in a wide spread of other financial assets, and should not form a major part of an investment portfolio".

The Fleming trust is more open to smaller investors. Its minimum investment has not yet been set but is likely to be around £2,500. The same risk warnings apply, however: consider this fund only if you have a broad spread of equity investments.

■ Unit trusts
Private investors have always had a far wider choice of commodity and energy unit trusts than investment trusts. The composition of the funds varies

considerable, with some concentrating on a single commodity such as oil or gold while others have a broad spread. The table lists the funds and their performance to October 1. The best performer has been Mercury Gold & General, managed by Julian Baring. This outperformance, combined with the recent fashion for commodities, has seen it grow from £26m at the beginning of last year to just under £400m – far larger than the sum of all the other trusts in the sector.

Is this a good time to invest in commodities? David Hutchins, manager of M&G's two funds dealing in them, believes the recent interest indicates that the sector is nearer its top than the bottom. He adds: "A lot of money has already been made. For example, base metals have moved up by 40 to 60 per cent since last September. However, in previous cycles, metal prices have increased by as much as 300 per cent, which suggests that there is still more to go, particularly since the cycle usually lasts two to three years, not just one."

Mark Lawson-Statham of Fleming, who manages S&P's Energy Industries fund (which

is over 90 per cent invested in oil stocks) also is hopeful about prospects despite the fact that oil is cheaper today, in real terms, than in 1986 when there was a price crash. He says: "When capacity utilisation [production divided by the capacity to produce] goes above 90 per cent, you get a price explosion. It is now over 90 per cent and will remain high, probably at over 95 per cent, to the end of the decade. Oil demand has grown every year since 1986 despite the recession."

The driving force is demand from the Far East (plus the cheapness of oil). And since the amount of oil consumed per capita in Asia is only one-tenth of that consumed in the west, it is likely this demand will continue to increase. "We have a cyclical commodity pattern backed by a strong structural picture," adds Lawson-Statham.

The chart shows that, historically, shares have outperformed commodities (measured by the Commodity Research Bureau's futures index). Thus, while good returns may be had periodically from commodities, private investors should take only a small punt.



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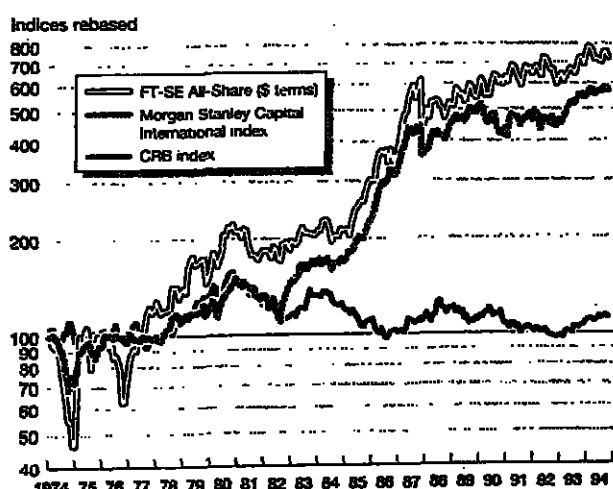
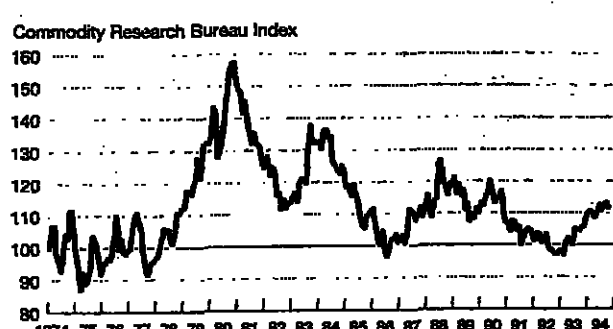
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*Source: Microcap offer to bid with gross income reinvested in 03/10/94

Commodities



Source: Datastream

How commodity unit trusts have performed

| Fund | Size £m | 1 yr % | 3 yrs % | 5 yrs % |
|-----------------------|---------|--------|---------|---------|
| Abbey Commodity & En | 10.5 | 37.0 | 59.3 | 4.5 |
| Allied Dunbar Mils | 9.8 | 11.5 | 28.6 | 11.7 |
| BG Energy | 2.1 | -13.2 | 26.1 | 38.8 |
| Gartmore Gold | 11.6 | 35.0 | 89.9 | 64.4 |
| Hill Samuel Natl Resc | 5.3 | 28.3 | 55.4 | 38.8 |
| Mercury Gold & Genrl | 392.1 | 73.0 | 300.0 | 250.9 |
| M&G Commodity & Genrl | 33.3 | 31.8 | 69.5 | 49.2 |
| M&G Gold & Genrl | 47.4 | 37.0 | 126.7 | 67.0 |
| NM Gold | 2.1 | 22.2 | 100.6 | 32.5 |
| Prov Capital Gold Tst | 28.0 | 28.3 | 116.3 | - |
| S&P Commodity Share | 56.7 | 31.2 | 88.0 | 74.6 |
| S&P Energy Industries | 17.7 | -1.4 | 53.9 | 45.7 |
| S&P Gold & Explor | 17.3 | 51.8 | 137.4 | 105.9 |
| TSB Natural Resources | 22.9 | 94.8 | 171.6 | 124.9 |
| Waverley Aust Gold | 5.9 | 75.2 | 231.9 | 76.9 |
| Average | | 32.2 | 109.0 | 70.3 |
| FT Gold Mines | | 57.8 | 87.5 | 37.8 |
| FT-A World Indx (C) | | 1.9 | 41.6 | 27.1 |
| FTSE-A All Share | | 3.4 | 31.8 | 54.1 |

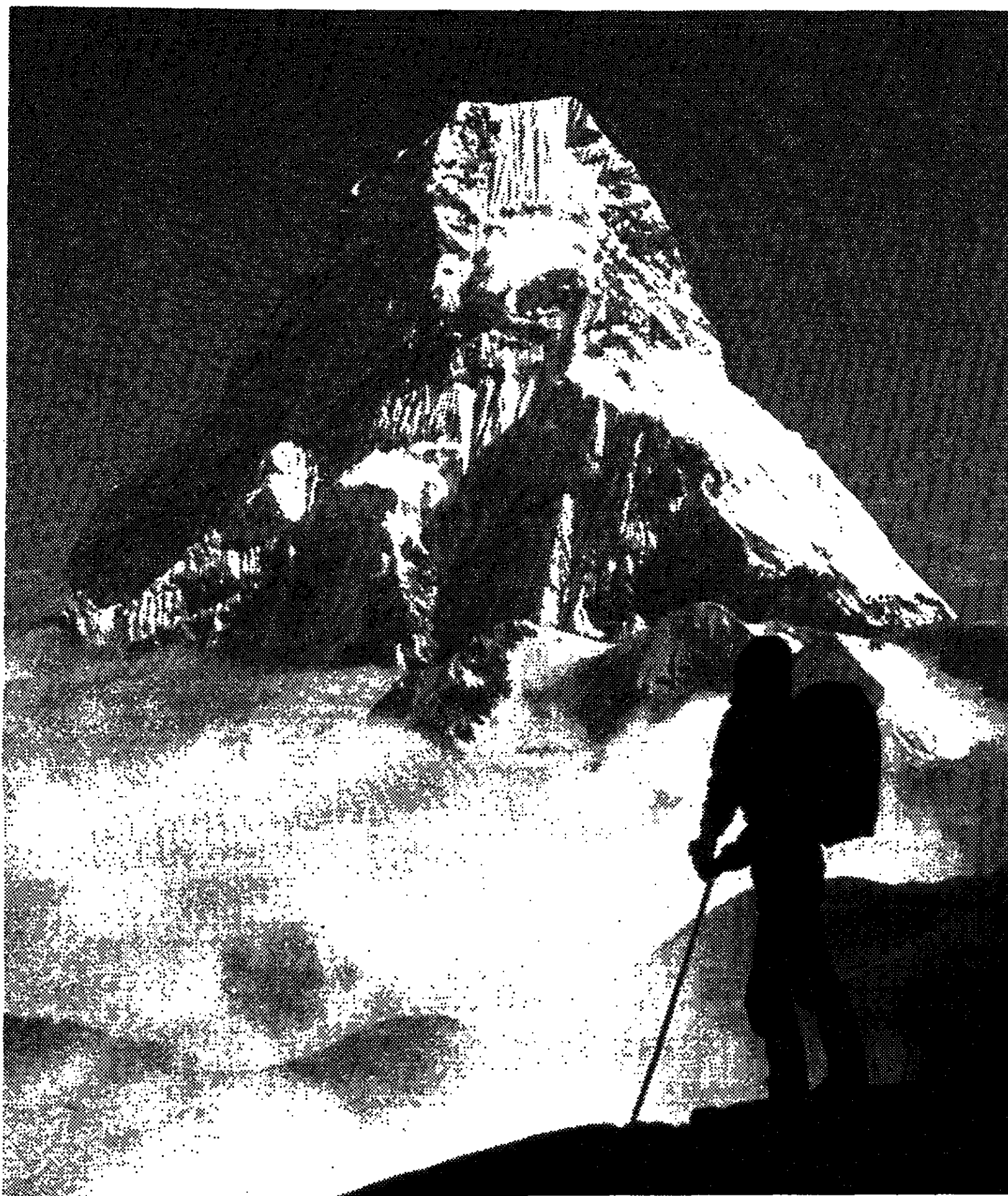
The table shows the percentage increase or fall to October 1 1994. Offer to bid, net income reinvested. Source: Microcap



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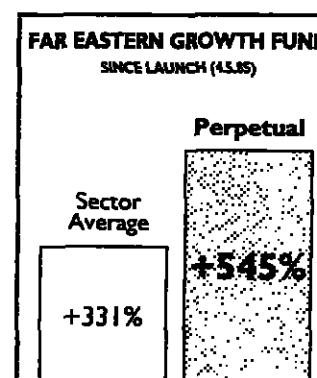
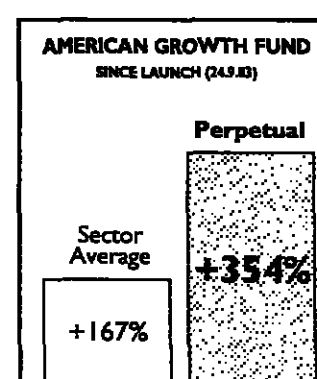
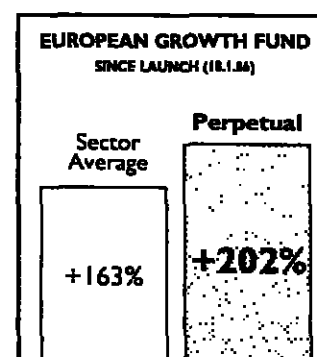
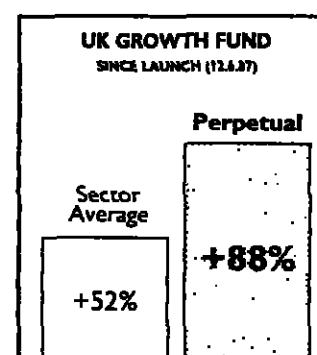
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FINANCE AND THE FAMILY

Lloyd's: who wins what?

Ralph Atkins analyses this week's High Court 'victory' for Names

The anger of hard-hit Lloyd's Names was vented a little this week. The High Court's ruling that Gooda Walker Names – among the worst-affected members of the London insurance market – had been victims of negligent underwriting during the late 1980s reinforced many Names' arguments that some professionals who handed their money were incompetent and culpable.

Beyond the sense of vindication, however, the benefits that aggrieved Names can reap following Tuesday's ruling are not clear. Although Mr Justice Phillips, the judge, was colourful in criticising the Gooda Walker underwriters, other cases in the legislative pipeline may not prove as strong.

Phillips described the insurance "spiral" in the Gooda Walker case, by which the underwriters agreed to cover others against excessive losses from catastrophes, as "like a multiple game of pass the parcel". His criticism may encourage other "spiral" cases, particu-

larly Names on the Feltrim syndicates whose case begins later this month. But they do not set a precedent.

The next batch of cases, for instance, arising from so-called long-tail liabilities: claims related to US asbestos and pollution awards in the United States. These affect policies underwritten by syndicates as far back as the 1940s.

Moreover, when Lloyd's last year appraised the strength of 31 legal cases pending in its attempts to forge a settlement between all sides embroiled in legal challenges, Sir Michael Kerr, a former High Court judge, found some were "weak" or even "hopeless".

Even when Names have a strong case, the justice system is unable to offer quick recompense. Gooda Walker is a good illustration: although the action group was quick to organise and had a relatively swift passage through court, it will still be months before the level of compensation is agreed. An

appeal could delay any deal until next summer. By then, legal action would have taken more than two years to reach a conclusion. Other action groups do not even have a date for their cases to begin; many may have to wait until the end of the century.

Another reason for caution in interpreting the Gooda Walker verdict is that damages awarded may fall well short of losses incurred by Names. Phillips said damages for the Gooda Walker Names should be based on losses sustained by the negligent conduct, rather than total losses. The action group estimates that will be worth £504m (compared with its claim of £829m), but lawyers for the defence describe that as speculative.

The little-noticed feature of the Gooda Walker case, however, was the High Court's ruling that the Names involved should have some protection against losses resulting from catastrophes but which have not yet been reported.

Yet, even if the Names win legal backing for compensation, they may not get their money back. This is because the Lloyd's agencies they are suing may not have sufficient "errors and omissions" cover from which claims for negligence are paid. The best estimates in the Gooda Walker case suggest about £250m-£300m might be available – much of it underwritten by other Lloyd's Names. In total, E&O cover for agencies being sued probably totals about £1bn – compared with total claims of about £3bn.

In practice, that could mean some groups of Names receiving little more than they would have under Lloyd's £300m settlement offer which was rejected earlier this year.

Josceline Grove, secretary of the Secretan Names Association – which is claiming £60m on behalf of 962 individuals in a case still some way down the legal queue – admits "it is a race into court and the first groups could scoop the pool, leaving nothing for the rest".

Power but no glory

Did the electricity regulator get it right after all? Professor Stephen Littlechild drew strong criticism two months ago when he announced a set of price controls on regional electricity companies that sent share prices soaring to record levels. The view among politicians was that he had been too soft and even the City acknowledged he was less tough than he could have been.

In the past six weeks or so, however, the shares have underperformed. In some cases, they have sunk to levels below where they were immediately before Littlechild's announcement. So, after three

years of largely uninterrupted growth, has the bubble burst?

The question will have particular concern for shareholders in Scottish Power and Scottish Hydro-Electric. When price controls were imposed on them last week, shares fell immediately as the market judged they had been given a tough time by the regulator.

National Power and PowerGen, and Northern Ireland Electricity, have been feeling the breeze, too. Although not subjected to regulatory reviews recently, they have been hit by falls in the sector and the market.

So what, then, are the prospects for electricity companies? In general, they remain at least

reasonably good but there are some clouds around. The Labour party is perhaps the biggest threat. Although it seems to have ruled out renationalising the companies, it could impose a windfall tax on the profits of privatised utilities – a possibility confirmed this week by Gordon Brown, the shadow chancellor.

Although change is much less likely under the Tories, it cannot be ruled out. The government appears increasingly sensitive to criticism that the utilities, particularly electricity, are not policed tightly enough, and a cabinet committee is examining regulation.

Politics apart, there is plenty of potential to keep shareholders smiling in the medium to long term, so reinforcing the arguments of Littlechild's critics. Some of the uncertainty surrounding most of the companies recently will lift in the next few months, particularly in the case of the regional electricity companies (RECs) in England and Wales.

The main doubts for REC shareholders have centred on the National Grid, the transmission company which the companies plan to float next summer. The RECs are putting considerable effort into minimising the capital gains tax they will have to pay.

The outcome of talks with the Inland Revenue could make a difference of up to £1bn in their bill, although most analysts believe the market has made allowance already for the worst scenario and that share values will grow when the details of flotation have been decided.

Sorting out the National Grid will allow the companies to press ahead with other ways of improving share earnings. Most have started share buy-backs but completion will, in most cases, have to wait until after the results season, which starts next month and ends in mid-December.

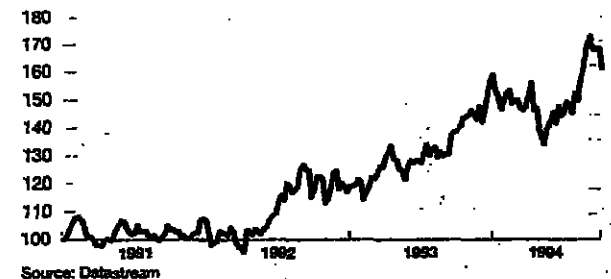
Analysts expect the results, from the first half of the year, to produce pleasant surprises. With Littlechild's review over, dividend growth is more likely to exceed expectations than disappointing them. Indeed, the City is expecting at least 6 to 8 per cent real growth, a year from all RECs for the rest of the decade.

For all of these reasons, analysts view the shares as good

Electrifying facts

| | Year and | £m | Market value £m | Dividend yield % |
|------------------------------|----------|-------|-----------------|------------------|
| East Midlands Electricity | 3/94 | 51.2 | 1,562.3 | 3.96 |
| Eastern Group | 3/94 | 176.8 | 1,912.7 | 3.87 |
| London Electricity | 3/94 | 186.5 | 1,493.7 | 4.11 |
| Manweb | 3/94 | 126.3 | 904.5 | 3.99 |
| Midlands Electricity | 3/94 | 185.4 | 1,514.0 | 4.06 |
| National Power | 3/94 | 677.0 | 5,995.1 | 3.34 |
| Northern Electricity | 3/94 | 128.7 | 931.6 | 4.10 |
| Norweb | 3/94 | 178.3 | 1,300.6 | 3.82 |
| Northern Ireland Electricity | 3/94 | 74.9 | 597.5 | 3.92 |
| Powergen | 4/94 | 476.0 | 4,173.7 | 2.98 |
| Scottish Hydro-Electricity | 3/94 | 164.2 | 1,207.9 | 5.02 |
| Scottish Power | 3/94 | 351.1 | 2,717.3 | 4.65 |
| Seaboard | 3/94 | 131.7 | 1,013.2 | 3.64 |
| South Wales Electricity | 3/94 | 104.0 | 780.3 | 4.17 |
| South Western Electricity | 3/94 | 116.8 | 910.7 | 3.97 |
| Southern Electricity | 3/94 | 222.0 | 1,837.7 | 3.07 |
| Yorkshire Electricity | 3/94 | 149.0 | 1,447.8 | 4.23 |

Electricity Relative to All-Share (FT-SE-A Index)



value. But there is less enthusiasm for the Scottish companies. Privatised later than the RECs, they have always been squeezed by tougher controls. Hopes that the regulator might ease these significantly in his review were dashed.

The Scots have no National Grid to sell and no immediate plans to buy back shares. Most analysts think they have less scope to increase dividends, even if real growth is likely to be 5 per cent minimum a year.

Even so, some analysts feel the Scottish shares have fallen too much since the review; they point out that both companies have potential to increase their unregulated earnings by exporting power to the rest of the UK.

Nonetheless, the companies – Hydro, in particular – are struggling to overcome the feeling that their prospects are less exciting than those of the RECs.

Another is the revival in the

dash for gas by rivals: the more independent gas-fired stations that come on stream, the less room there is in the market for the two companies' older, coal-fired stations.

A further problem is that they have agreed a deal with the electricity regulator under which they will try to sell off 6,000mw of capacity by the end of next year. Failure to do so could cause them to be referred to the Monopolies Commission, although that seems unlikely.

But the two companies do have strong balance sheets and above-average dividend growth is expected of both. Indeed, some analysts believe they can increase dividends by more than 15 per cent a year.

Northern Ireland Electricity's image as sector star has been dented following the reviews involving the mainland companies. While these were under way, some investors bought NIE as a hedge against tough price controls in England, Scotland and Wales.

Still, NIE continues to be regarded highly and, as it was privatised only last year, many of the rewards of cost-cutting lie ahead.

Michael Smith

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FINANCE AND THE FAMILY

A capital way to make money

But those who venture can risk losing out in a volatile market, says Bethan Hutton

This year's highly-publicised flotation of 3i, the venture capital investment trust, attracted many private investors to venture capital for the first time. But 3i is only the latest - and largest - addition to a long-established investment trust sector.

Microcap lists 25 funds in the venture and development capital sector which invest in small businesses in their start-up phase, or provide extra capital to more established (but generally still unquoted) companies which need money to expand or to fund a management buy-out or buy-in.

Many funds are tiny - 10 have less than £15m under management. Until 3i came to market, Electra was the largest venture capital investment trust, with assets of £574m, compared with 3i's £1.9bn.

The characters of the funds differ as much as their sizes. There are geographic specialists like Abtrust Scotland which, as its name suggests, invests mainly north of the border, and the East German investment trust, which buys privatised East German enterprises.

Several of the general funds - Electra, Ivory & Sime Enterprise, Foreign & Colonial Enterprise - have substantial holdings in the US as well as the UK. Pantheon International Participations is unique in the sector as it prefers to invest through other venture capital funds.

Risk levels also vary widely. A fund with a concentrated portfolio of a few dozen investments will be more risky than one like Pantheon, which has indirect stakes in several hundred companies, or 3i, with more than 3,400. Funds specialising in start-up capital are riskier than those providing development capital to more established businesses.

Likewise, performances can be poles apart: Microcap's 10-year performance figures for £100 invested in venture capital trusts range from £30 to £61.

So, the choice is broad. But it can be difficult for private investors to know what they are buying, not only for what each trust aims to do but also in terms of value for money.

The usual measure of whether an investment trust is cheap or expensive is whether its share price is at a discount or premium to net asset value. The problem is that the accuracy of the discount/premium rating depends on how accurate the calculation of asset value is.



Asset values of investment trusts with portfolios of quoted shares can easily be recalculated every day, but unquoted investments are another matter - their market value is difficult to determine and highly subjective.

Venture capital investment trusts tend to value their unquoted assets two or four times a year.

In between valuations, it is impossible to tell if the asset value is rising or falling - companies in the portfolio may have been awarded lucrative contracts or be experiencing financial difficulties, but this will not be reflected in the fund's quoted asset value.

Periodic re-ratings can be quite dramatic, particularly in trusts nearing their winding-up dates which are selling off stakes and realising large profits. 3i, for example, values its portfolio twice a year. The last valuation was at the end of March: the valuation from the end of September is due to be released next month.

So, although 3i shares were, until recently, trading at a pre-

mium to what analysts estimated was asset value, no one knew for sure whether that was the case.

Recently, 3i's presumed premium rating has been eroded, as investors have taken profits - up to 20 per cent for those selling at the 338p peak. Indeed, some brokers have been recommending that clients sell 3i and buy other venture capital trusts.

Peter Walls, investment trust analyst at Credit Lyonnais Laing, says: "My belief is that, in asset value terms, one would see better growth and better performance from the likes of Murray Ventures or Electra for the next two or three years than one will from 3i - they are trading on relatively generous discounts."

But Iain Scouller, investment trust analyst at S.G. Warburg, points out: "Some people have been talking about switching out of 3i into Electra but, looking at the underlying assets of those trusts, they are very different." 3i's portfolio is much more diverse, and more UK-orientated, than Electra or the other large, general venture capital trusts.

Still, if 3i's profile is what

you want over the long term, you should stick with it; you will not get the same from another trust. But if you want to put new money into venture capital, or are prepared to go for a riskier fund, you will probably find better value elsewhere.

Venture capital is not for

everyone. It is a highly volatile and potentially very profitable area - but it can lose investors' money all too easily. Most advisers recommend treating venture capital funds with caution, and only investing if you have a broad portfolio of more mainstream investments already.

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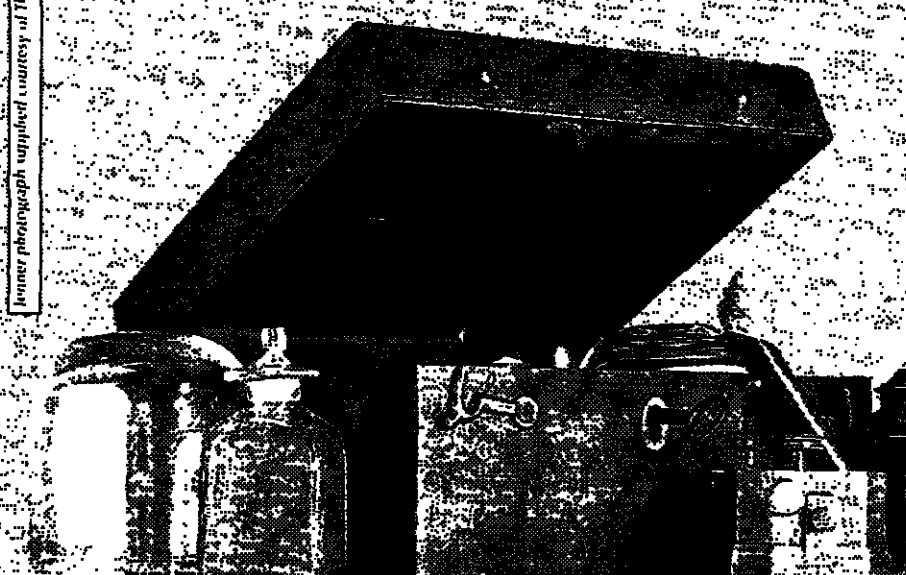
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Portrait photograph supplied courtesy of the Invesco Museum, Geneva



TOP LEFT: Jenner tested his theory of inoculation on local people. ABOVE: A cupping set, used for letting blood, a common medical practice in Jenner's day. BELOW: Today, immunisation has helped eradicate many diseases.

Scientific theory is meaningless unless backed by evidence. Jenner's observation that milkmaids rarely suffered from smallpox may well have provoked the concept of immunisation, yet it took years of painstaking research to prove that his vaccination did indeed work. Exhaustive research is as fundamental to INVESCO's approach to investment.

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Canterbury tales

University life is marked by borrowing and scrambling to make ends meet. Most students are familiar with the ritual of requesting an overdraft or wrangling a loan from parents or the government. Now, students at Canterbury University in the south of England are being offered an alternative to the traditional forms of finance.

The Canterbury Local Exchange and Trading System (LETS), a community bartering scheme in which members trade goods and services such as house cleaning, gardening and bicycle repair for trade credits, is inviting students to

offer their skills in exchange for an opportunity to stretch their budgets.

Students will pay £2 to join and will be assigned an account denominated in the local trading unit - which in Canterbury, appropriately, is called the "tale".

They will be given a cheque book and a directory of services provided already by the 300 members in the Canterbury pool. Once they add their talents - be it baby-sitting, computer skills or aromatherapy - to the list, they can start trading. A central record-keeper debits or credits each member's account after each transaction.

LETS have become increasingly popular in Britain, where there are more than 200 schemes. The first was set up in Canada in the 1970s; since then they have spread to the US, Australia and continental Europe.

Joan Callot, of the Canterbury LETS, says: "It will stretch students' horizons and make it easier for them to survive." While believing they will not abuse the system, she admits: "Some of them may find it difficult to earn their payments. But we trust them to earn and spend in a reasonable fashion."

Motoko Rich

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| The rate of retail price inflation was: | +0.0% | +2.2% |
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FINANCE AND THE FAMILY

Hurry for a quick fix

Fixed-rate mortgages have been rising this year as the cost of borrowing on the wholesale money markets has risen. But while a good number of fixed rates remain available, Ian Darby, of mortgage-broker John Charcol, believes they will disappear quickly.

"There is still a lot of old money in the markets, but new money priced on the post-base rate rise is more expensive," he says. "I don't think the old money will be around for more than another week."

Five-year fixed rates of 6.99 per cent, available at the beginning of the year, have given way to very resistable new offers. The latest, launched this week, includes a three-year fixed rate of 9.5 per cent from Cheltenham & Gloucester; a four-year fix from Woolwich of 9.49 per cent; and a 4½-year fix (to February 28 1999) from Barclays bank at 9.75 per cent.

The table shows some of the better rates available, including five-year fixes of 8.15 per cent from the Britannia and Lambeth building societies. But you need deposits of 40 or 25 per cent respectively.

As long-term money becomes expensive, the choice for borrowers is likely to be between a shorter-term fixed rate or a discounted variable rate.

Since interest levels are now on the way up, taking a short-term fix means you can be relatively sure you will not be undercut by lower mortgage rates. The standard variable rate is now just over 8 per cent so the two-year, 4.95 per cent fix from Charcol looks attractive.

Always check that the fees on a fixed rate are not too high and try to avoid mortgages tied to compulsory insurance - you could well find cheaper insurance elsewhere.

Check, too, that the mortgage still applies if you move house within the fixed rate period, since you do not want to have to pay the early redemption penalties which are always attached to fixed-rate mortgages.

Lenders have been trying to wean borrowers off fixes and on to their variable rates by offering discounts and cashback offers. Discounts tend to represent better value - the

Best Mortgage Buys: Fixed and Discount

| Fixed Rates | Rate%(APR) | Fix until | Max adv. | Fee/PP | Comp b/ |
|---|------------|-----------|-----------------------|-----------|---------|
| Lender | | | | | |
| Northern Rock | 5.49 (5.6) | 1/6/96 | 95% | £250/4mts | Y |
| John Charcol | 4.95 (5.1) | 1/7/96 | 95% | £295/3mts | N |
| National Counties | 7.25 (7.7) | 1/10/97 | 90% | £275/5mts | Y |
| Britannia | 8.15 (8.0) | 1/9/99 | 60% | £275/5mts | Y |
| Lambeth | 8.15 (9.4) | 1/8/99 | 75% | £250/5mts | Y |
| Discount Rates | | | | | |
| Lender | Rate%(APR) | Max adv | Discount until | | Comp b/ |
| Northern Rock | 8.14 (8.4) | 90% | 2% to 1/1/98 =6.14% | | Y |
| Northern Rock | 8.14 (8.4) | 90% | 5.25% to 1/1/98=2.89% | | Y |
| Bank of Ireland | 8.05 (8.4) | 90% | 5.1% to 1/1/98=2.95% | | N |
| Principality | 8.14 (8.5) | 75% | 5.14% to 1/1/98=3.0% | | Y |
| Alliance & Leicester | 8.10 (8.5) | 95% | 1.6% for 3 yrs=6.5% | | N |
| First Time Buyers: Fixed and Discount Rates | | | | | |
| National & Provincial | 1.75 (1.8) | 90% | Fixed to 1/8/95 | | N |
| Yorkshire | 1.90 (2.1) | 95% | Fixed to 1/8/95 | | Y |
| Northern Rock | 8.14 (8.3) | 90% | 5.25% to 1/1/98=2.89% | | Y |
| Greenwich | 8.10 (8.7) | 95% | 4.7% for 1 yr=3.4% | | Nor |
| Alliance & Leicester | 8.10 (8.5) | 95% | 1.6% for 3 yrs=6.5% | | N |

lender reduces its variable rate for a specified period by a set proportion.

The table shows that Northern Rock is offering a 5.25 per cent discount point reduction until

the beginning of 1996. Since its variable rate is 8.15 per cent, borrowers will have to pay a mortgage rate of only 2.89 per cent until then (or 5.25 points lower than the society's vari-

able rate if it changes).

"Lenders are waging a discount war," says Darby. "If you want a variable rate, then a discount is very good value. But if you are on a five-point discount for a year, and base rates increase again, you could find yourself moving from 3 per cent to 9 per cent in the space of a month."

If you want to avoid that kind of shock but still want a discounted rate, Alliance & Leicester is offering a smaller discount of 1.6 percentage point spread over three years.

An alternative is to accept a cashback offer instead of a discount. Royal Bank of Scotland has just launched an extremely competitive variant on the standard cashback offer of "take out a mortgage with us and we will give you £££ cash up-front".

Borrowers will receive from the bank the equivalent of their first regular monthly payment (to a maximum of £1,000) every year during the life of the mortgage. The mortgage is available on repayments as well as interest-only mortgages backed by an endowment, personal equity plan or pension. The early redemption penalty is one month's interest in the first three years.

Remember, however, that the cashback could be taxable.

Scheherazade Daneshkhoo

Top annuity rates

An annuity provides guaranteed income for life in return for a lump sum investment. PURCHASED LIFE ANNUITIES are bought by people wanting extra regular income. Rates are attractive for older people. The annuity income is not fully taxable. The table shows rates net of 25 per cent income tax. Certain rates include "capital protection" - allowing the capital invested - less instalments paid to you - to be returned to your estate when you die.

| Without capital protection | Without capital protection |
|----------------------------|----------------------------|
| Male age 70 Annuity | Female age 70 Annuity |
| Canada Life £12,309.36 | Canada Life £10,803.44 |
| Standard Life £12,054.39 | Standard Life £10,473.12 |
| Canada Life £12,053.52 | Standard Life £10,353.84 |
| With capital protection | With capital protection |
| Male age 70 Annuity | Female age 70 Annuity |
| Canada Life £10,987.56 | Canada Life £9,788.80 |
| Equitable Life £10,901.64 | Sun Life £9,770.42 |
| Standard Life £10,775.76 | RNFPN £9,745.16 |
| Without capital protection | Without capital protection |
| Male age 75 Annuity | Female age 75 Annuity |
| Canada Life £14,750.52 | Canada Life £12,524.52 |
| Standard Life £14,496.16 | RNFPN £12,426.84 |
| Canada Life £14,291.16 | Standard Life £12,284.16 |

JOINT LIFE - 100% SPOUSE'S BENEFIT

| Without capital protection | Without capital protection |
|----------------------------|----------------------------|
| Male age 65 Annuity | Female age 65 Annuity |
| Canada Life £8,508.60 | Canada Life £8,994.48 |
| Sun Life £8,440.09 | Sun Life £8,872.23 |
| Royal Life £8,325.76 | Standard Life £8,820.36 |

Payments are monthly in arrears, without a guarantee period and without escalation. Rates are as at 4 October 1994. Figures assume an annuity purchase price of £100,000 and are shown net after tax. A tax rate of 25% has been applied. RNFPN annuities are available only to nurses and allied workers. Source: Annuity Bureau 071 620 4090.

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| | | £st | £st | £st | £st | Paid | Balance £ | |
| Alliance & Leicester | Special Edition | 7.25 | 7.25 | 5.40 | 5.40 | Ytd | 100 | 7.00%-7.50%-8.00%. One withdrawal of 10% of bal without pen. rate variable |
| | Bonus 90 | 6.00 | 6.00 | 5.30 | 5.30 | Ytd | 1000 | 6.00%-6.25%-6.50% |
| | 10 | 6.00 | 6.00 | - | - | Ytd | 10 | 20 days withdrawal limit, ac |
| | Instant | 5.65 | 5.65 | 4.25 | 4.25 | Ytd | 1000 | 5.00 CIBS/40 CIBS/60 CIBS instant access |
| | Instant Access | 4.50 | 4.50 | 3.37 | 3.37 | Ytd | 1000 | 4.15%-4.50%-5.00%-5.50% |
| Bancroft | Starling Bonus | 7.00 | 7.00 | 5.25 | 5.25 | Ytd | 100,000 | 120 day notice or 30 day penalty. |
| Birmingham Midland | Gemstone High Int | 6.35 | 6.25 | 4.69 | 4.74 | 10Yrs | 50,000 | Instant access above £10k |
| (0445) 720722 | First Class Int | 6.75 | 6.75 | 5.06 | 5.06 | Ytd | 100,000 | Instant access no penalty |
| Braintree & Essex | Special Asset | 5.35 | 5.25 | 3.80 | 3.80 | Ytd | 5,000 | 90 days notice |
| (0800) 992598 | Special Asset | 6.35 | 6.35 | 4.61 | 4.61 | Ytd | 10,000 | Threat interest rates |
| | Special Asset | 6.40 | 6.40 | 4.50 | 4.50 | Ytd | 20,000 | Monthly income available |
| | Special Asset | 6.35 | 6.35 | 4.52 | 4.52 | Ytd | 60,000 | |
| | Special Asset | 6.35 | 6.35 | 5.24 | 5.24 | Ytd | 60,000 | |
| Castlefield (077-222 67967) | Jobline Bond | 6.55 | 6.55 | 4.97 | 4.97 | 10Yrs | 30,000 | 90 day £2K + 6.50%-6.72% net. |
| Century (Edinburgh) (031-556 1711) | 'V' Shares | 7.50 | 7.50 | 5.625 | 5.625 | Annually | 100 | |
| | Ordinary | 5.66 | - | - | 3.765 | 7 Yds | 1 | Instant Access, No Penalties |
| Cheltenham & Gloucester | The Leaden Account | 5.75 | 5.75 | 4.31 | 4.31 | Ytd | 2,500 | Instant access partial deposit account |
| (0800 712950) | Best 90 (Closed Issue) | 7.25 | 7.25 | 5.44 | 5.44 | Ytd | 100,000 | Closed Issue, £25k + 7.00%, £10k +4.40% |
| City & Midland | Super 60 | - | 6.40 | 4.80 | - | Ytd | 10,000 | Withdrawals at only 60 days notice. 5.00% from £50k. |
| | Premium 20x | - | 7.00 | 5.25 | - | Ytd | 100,000 | Draw rates include 1.25% annual proxy bonus payable |
| | Premium 20x | - | 6.75 | 5.00 | - | Ytd | 50,000 | where no withdrawal occurs. Not withdrawn up to |
| | Premium 20x | - | 6.50 | 4.80 | - | Ytd | 25,000 | £5,000 per each extra £10,000 premium. Different interest |
| | Premium 20x | - | 6.20 | 4.65 | - | Ytd | 10,000 | rates apply to non-premium accounts (eg. cash, club to charity etc) |
| | Texas | 6.00 | 6.00 | - | - | Ytd | 50 | 5yr terms lead 2 bonuses |
| Leeds & Holbeck (0532 49551) | Capital Bond | 7.10 | 7.10 | 5.33 | 5.33 | 30 April | 150,000 | 90 days notice/annually. Monthly income option also available. |
| | Texas | 6.00 | 6.00 | - | - | 1 Jan | 1 | No transfer restrictions or charge. Loyalty bonus 1% extra year 5 |
| | Gold Account | 5.35 | 5.35 | 3.86 | 3.86 | 1 Jan | 50,000 | No notice no penalty |
| Leeds Permanent (0532-435261) | Bonus Gold | 7.00 | 7.00 | 5.25 | 5.25 | Annually | 100,000 | Includes no interest bonus of 0.50% p.a. provided on withdrawals |
| | Bonus Gold | 6.81 | 6.81 | 5.11 | 5.11 | 10Yrs | 100,000 | made during previous 12 months period. Threat rates from £10,000 |
| | Liquid Gold | 5.10 | 5.10 | 3.83 | 3.83 | Annually | 25,000 | Instant access, no penalty on withdrawal up to £25 |
| | Gold Bond | 6.00 | 6.00 | 4.50 | 4.50 | Annually | 50,000 | Instant access, no penalty on withdrawal up to £10,000. Withdrawal 90 days |
| | Gold Bond | 5.04 | 5.04 | 4.30 | 4.30 | Monthly | 50,000 | notice on 90 days loss of interest. Threat interest rates from £50k. |
| Meridian (0202) 478221 | Rainbow 60 | 6.85 | 6.85 | 5.14 | 5.14 | Annually | 100,000 | 60 days notice |
| | Texas | 6.75 | 6.75 | - | - | Annually | 10 | 30 days notice |
| Monmouth (019 252 6474) | Navis Plan Special | - | 5.55 | 4.05 | - | Annually | 200,000 | Instant access |
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| | Portfolio Bond | - | 6.9 | 6.68 | - | Annually | 2,000 | days notice (or instant access after 90 days loss of interest). Instant access with 90 days loss of interest |
| Northern Rock (011 265 7757) | Postal 60 | 7.25 | 7.25 | 5.44 | 5.44 | Annual | 100,000+ | Postal account. |
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| | Instant Gold Account | 6.20 | 6.20 | - | - | Ytd | 20,000 | Max holding £1,000,000. Instant access. Monthly option. |
| | Gold Bond | 6.25 | 6.25 | - | - | Ytd | 10,000 | Max £500,000. Monthly option. |
| Shropshire (0222 544168) | Share Plan Account | 7.30 | 7.30 | - | - | Ytd | 100 | Includes 6.25% bonus for no withdrawals |
| Southampton (0800 596767) | Keepsake by Post | 6.50 | 6.50 | 4.88 | 4.88 | Annually | 15 | Regular Saver, Monthly Investment £15-150, Instant Access |
| Skipton (0746 700512) | 3 yr Fixed Rate Bond 2nd Year | 8.25 | 8.25 | 6.19 | 6.19 | Ytd | 2000 | |
| | High Street | 6.10 | 6.10 | 4.58 | 4.58 | Ytd | 2,000 | Fixed until 30 September 1997. |
| | Travel Saverplan | 0.50 | 0.50 | 0.38 | 0.38 | Ytd | 25 | Instant Access, supported through branches from 25.07.94. |
| Southwell (01908 440 900) | Current Account | 5.10 | 5.10 | 3.83 | 3.83 | Ytd | 50,000 | Order Via Rate Indicator 2% Bonus p.a. for no withdrawals. |
| | 5.00 | 5.00 | 3.75 | 3.75 | Ytd | 25,000 | Instant Access. Rates | |
| | 4.50 | 4.50 | 3.38 | 3.38 | Ytd | 10,000 | Variables. | |
| | 3.50 | 3.50 | 2.63 | 2.63 | Ytd | 500 | Authorized overdraft rate | |
| | 1.15 | 1.15 | 0.86 | 0.86 | Ytd | 1 | of 9.5% APR. Subject to | |
| Yorkshire (0800 378054) | Texas Premier | 6.00 | 6.00 | 4.00 | 4.00 | Ytd | 300 | status and est. age 18. |
| | 1st Class Access | 6.50 | 6.50 | 4.88 | 4.88 | Ytd | 100,000 | 90 days notice, no transfer |
| | 2nd Class Access | 6.25 | 6.25 | 4.69 | 4.69 | Ytd | 50,000 | £2000 minimum in open ac |
| | 1st Class Access | 5.95 | 5.95 | 4.44 | 4.44 | Ytd | 25,000 | Instant postal accounts plus |
| | 1st Class Access | 5.80 | 5.80 | 4.35 | 4.35 | Ytd | 10,000 | Link Card for 24hr access via |
| | 1st Class Access | 5.55 | 5.55 | 4.34 | 4.34 | Ytd | 2,000 | A.T.M. |
| | 1st Class Access | 1.45 | 1.45 | 1.09 | 1.09 | Ytd | 25 | |

* For telephone see local directory. #Rate of basic rate plus. C&P = Annual yield after interest compounded.

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FINANCE AND THE FAMILY

Don't delay that will

Scheherazade Daneshkhu
explains the
benefits of
making proper
provision

Only one-third of UK adults have made a will. To spur the rest, Make a Will week, an annual promotion organised by the Law Society, starts on Monday, October 17. Married people tend to assume everything will pass to their spouse when they die - but this is not always so, as the chart shows.

In broad terms, if you die without a will and leave an estate worth more than £125,000 (in England and Wales), it will be divided between your spouse and children (sometimes parents if there are no children).

This can be a problem if much of the estate's value is concentrated in the family home - the spouse might have to sell it to satisfy other claimants.

People who stand to lose most are unmarried partners who survive the person with whom they lived. They have no rights under the intestacy laws although, if they are a dependant, they may be able to claim through the courts.

There are three distinct elements in making a will:

- Appointing executors to handle your affairs. Usually, these will be trusted relatives or friends. If you die intestate, your next of kin will have to do the job - even if they are reluctant at such an upsetting time.

Try to avoid appointing a professional, such as a solicitor or bank. They are likely to be expensive and the family could find it difficult to control them if it is unhappy with their service. A non-professional executor can always appoint a solicitor to help, anyway.

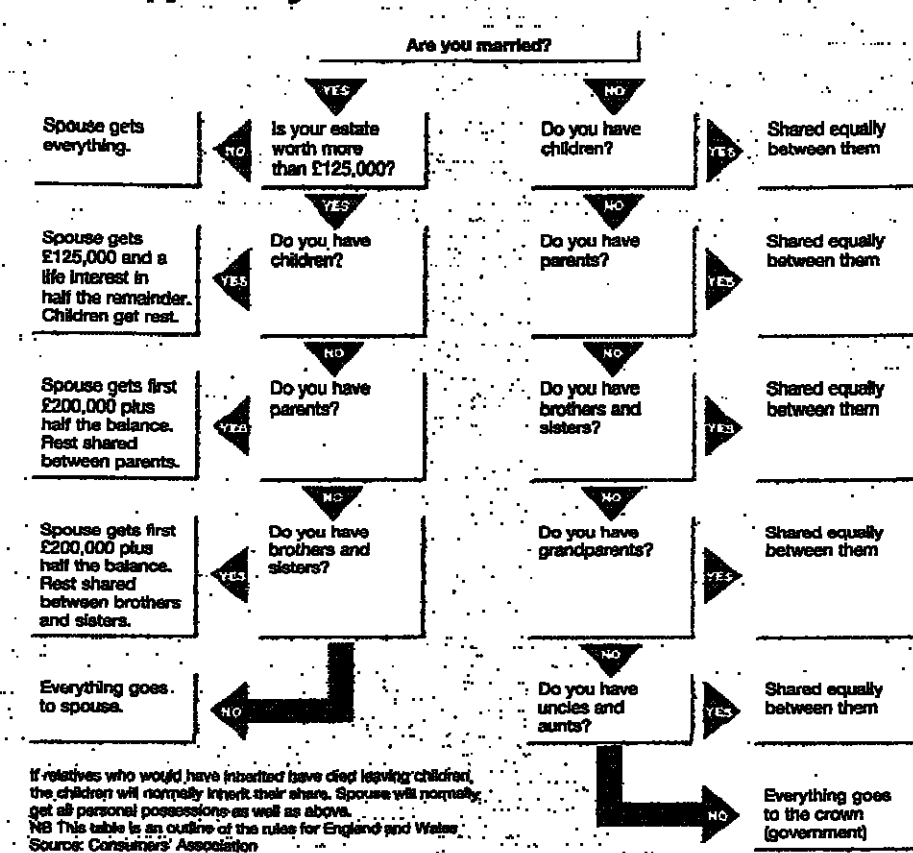
- Prescribing powers for trustees. If you have children under 18, you must have trustees to handle their affairs - although the executors can fulfil this role. How much power the trustees should have is for you to decide.
- Distributing the property. This should be quite straightforward so long as you have calculated the size of your estate and know where you want your possessions to go. But remember to revise the will if your financial or personal circumstances change significantly, or a beneficiary dies.

Where should you have the will drawn up? The options are wide, ranging from a trip to the stationer for a do-it-yourself pack to a solicitor's office. But research by the Consumers' Association - published this week in its magazine, *Which?* - found that one in five wills was of poor quality, with sloppy drafting.

The association suggests shopping around for quotations, working out figures beforehand, and getting the person drafting the will to explain any jargon they might use. Always check the will after it has been drafted.

□ Solicitors came out best in the survey. Of the 31 wills drawn up by them, six were deemed good and 20 reasonable, but five were poor. Quality of service can vary considerably and is not always

What happens if you don't make a will?



related to how much you pay - anything between £23.50 and £117.50, according to the association.

Solicitors also can guide you on inheritance tax but the costs for this will push up the bill; ask for an estimate first. The best are likely to be found through personal recommendation. If you are unhappy, you can turn to the Solicitors Complaints Bureau.

□ Banks and building societies. The main problem here is that most banks insist on being named executor and, since their fee tends to be a fixed percentage of the estate, they can be very expensive.

The survey found that of the 10 wills given to banks and building societies, three were good, five reasonable and two poor. It also found incompetence and lengthy delays in executing wills.

□ Will-writing services. Of the six firms surveyed by the association, four produced poor wills while those from two others were no more than reasonable. But these often are franchise operations and qualifications are not needed to provide such a service. Moreover, they are unregulated - there is no point of redress for unhappy clients.

□ Life insurance companies. Some of these, or independent financial advisers, may offer "free" will-writing services, but be wary - this could be a marketing ploy to sell you something else.

The survey tried out only three life companies, however. Two drafted reasonable wills. The third did not draft one after the client refused to buy any life products.

□ Do-it-yourself packs. These may seem an easy option but you can miss out on good advice, which could cause unnecessary complications after your death.

Solicitors Complaints Bureau, Victoria Court, 8 Dorrner Place, Leamington Spa, Warwickshire, CV32 3AE. Tel: 0246-530 033.
Other complaints: Banking Ombudsman, 70 Gray's Inn Road, London WC1X 8NB (071-404 9944); Building Societies' Ombudsman 35-37 Grosvenor Gardens, London SW1X 7AW (071-931 0044).

NEW INVESTMENT TRUST LAUNCHES

| Manager (Telephone) | Broker | Sector | Warrants | Size On | Yield % | PEP Dist? | Savings Scheme | Issue Price | Minimum Invest | Maximum Invest | Dividend Yield % | Annual Change % | Minimum Change % | Offer Period |
|---|---------------|--------|----------|---------|---------|-----------|----------------|-------------|----------------|----------------|------------------|-----------------|------------------|-------------------|
| ■ BZW Commodities Trust BZW (0500 202021) | | | | | | | | | | | | | | |
| de Zoete & Bevan | Commodities | 1.5 | 100 | n/a | No | No | 100p | 95.5p | £5,000 | 1.25 | n/a | n/a | n/a | 8/10/94-20/10/94 |
| A Jersey-based, London-listed fund, aimed mainly at institutions but which may appeal to larger private investors | | | | | | | | | | | | | | |
| ■ Fidelity Special Values Fidelity (0800 414161) | | | | | | | | | | | | | | |
| SG Warburg | UK Growth | 1.5 | 30+ | n/a | Yes | Yes | 100p | 95.5p | £1,000 | 0.95 | n/a | n/a | n/a | 19/10/94-31/10/94 |
| New twin for Fidelity's Special Situations unit trust, run by Anthony Bolton | | | | | | | | | | | | | | |
| ■ Lazard Brewers Lazard Investors (071 614 3065) | | | | | | | | | | | | | | |
| Gray Middleton | UK General | 1.5 | 50m | 3% | Yes | n/a | 100p | 96p | £1,000 | 1% | n/a | n/a | n/a | closes 22/10/94 |
| Specialising in regional brewers, pub companies and others involved in the production or sale of drinks | | | | | | | | | | | | | | |
| ■ Murray Emerging Economies Murray Johnstone (0345 222 223) | | | | | | | | | | | | | | |
| De Zoete & Bevan | Emerging Mkts | 1.5 | 20m+ | n/a | No | Yes | 100p | 95.5p | £1,000 | 1.25% | n/a | n/a | n/a | 9/11/94-29/11/94 |
| Investing in real emerging markets - India, China, Brazil, Hungary etc - not "gateways" like Hong Kong or Vienna | | | | | | | | | | | | | | |
| ■ Profitic Income Profitic (0800 998855) | | | | | | | | | | | | | | |
| James Capel | UK Inc Growth | 1.5 | 40+ | 4%+ | Yes | Yes | 100p | 95.1p | 2,000 | 0.8% | 2,000 | 1.5% | 22/9/94-13/10/94 | |
| Similar investment strategy to existing Profitic High Income unit trust, ranked 30th of 94 funds over five years | | | | | | | | | | | | | | |

NEW UNIT TRUST LAUNCHES

| Manager (Telephone) | Sector | Target Yield % | Full PEP Dist? | Savings Scheme | Charges Initial % | Charges Annual % | Charges Outside PEP % | Minimum Invest | Charges Inside PEP Initial % | Charges Annual % | Minimum Invest | Special offer Period |
|---|--------|----------------|----------------|----------------|-------------------|------------------|-----------------------|----------------|------------------------------|------------------|----------------|----------------------|
| ■ Tiney UK Smaller Companies Tiney (051 471 4131) | | | | | | | | | | | | |
| UK Smaller Cos | 1.7 | Yes | Yes | 5.00 | 1.25 | No | 500 | 500 | 1.25 | No | 500 | Yes 5/10/94-25/10/94 |
| The first unit trust launched by this stockbroker fund management group. Tiney manages a high-performing smaller companies pension fund | | | | | | | | | | | | |
| 1.2 percentage point discount on lump sums and first six months of savings plan. | | | | | | | | | | | | |
| ■ HL Investment Trust Portfolio Trust Hargreaves Lansdown (0272 767 767) | | | | | | | | | | | | |
| Investment trust units | 2 | Yes | Yes | 5.75 | 1.5 | No | 2,500 | 575 | 1.75 | No | 2,500 | Yes 7/10/94-27/10/94 |
| Unit trust investing in a wide range of UK and overseas investment trusts, with a 5 per cent annual withdrawal facility. | | | | | | | | | | | | |
| 1.1 percentage point discount on investments over £5,000; 1.5 over £10,000; 2 over £20,000; and 3 over £50,000 | | | | | | | | | | | | |
| ■ Managed Growth Fund M&G (071 626 4588) | | | | | | | | | | | | |
| Fund of Funds | 1 | Yes | Yes | 5 | 1.5 | No | £500 | 0 | 1.5 | Yes** | £1,000 | 8/10/94-29/10/94 |
| M&G's second fund of funds, this one concentrates on long-term growth. It is also the second M&G no-charge PEP | | | | | | | | | | | | |
| * Withdrawal charges on a sliding scale from 4.5 per cent in the first year down to 0 after the end of the fifth year | | | | | | | | | | | | |

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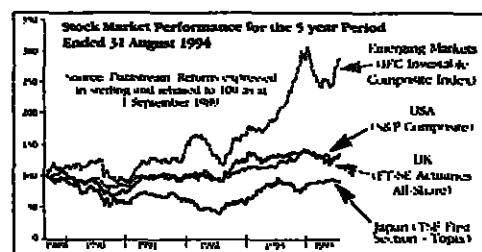
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FINANCE AND THE FAMILY

When 'top rate' means 45%

David Cohen reveals how changes to the treatment of dividends are driving up tax bills

Ask the Inland Revenue and it will tell you that the top rate of income tax is 40 per cent. The truth, however, is that some taxpayers now face a marginal rate of 45 per cent because of last year's changes to the tax treatment of dividends.

Every dividend cheque is accompanied by a voucher giving a tax credit. On April 6 1993, the value of this credit was cut from 25 to 20 per cent of the gross payment. So, someone receiving an £80 dividend now gets a £20 credit, which is 20 per cent of £100 (the dividend and credit combined).

comes for those individuals in the higher-rate bracket who have a mix of dividends and other sources of income. The dividends will be treated as the top slice when calculating overall liability. Hence, the benefit of the special 20 per cent dividend rate will be available only to the extent that the basic-rate band has not been absorbed by the individual's non-dividend income.

Any increase in such income will, therefore, catapult an equivalent amount of dividend income from 20 per cent straight up to 40 per cent.

Take Ezra, whose income comprises a £18,000 salary and

£12,000 dividends. Ignoring personal allowances, his tax liabilities will be as set out in Table 1. Table 2 shows the impact of a £5,000 salary increase. Additional tax of £3,250 is 45 per cent of the extra income.

Having identified this trap, what can taxpayers do to avoid it? Many will have little or no influence over their income level, and an employee offered

| Table 1 | Table 2 |
|---------------------------------|---------|
| £3,000 salary @ 20% | £800 |
| £18,000 salary @ 25% | £4,500 |
| £27,000 (incl. basic rate band) | |
| dividend @ 20% | £540 |
| £4,300 div @ 40% | £1,720 |
| Total | £2,760 |

£12,000 dividends. Ignoring personal allowances, his tax liabilities will be as set out in Table 1. Table 2 shows the impact of a £5,000 salary increase. Additional tax of £3,250 is 45 per cent of the extra income.

Having identified this trap, what can taxpayers do to avoid it? Many will have little or no influence over their income level, and an employee offered

a pay rise is hardly likely to turn it down because it will be taxable at 45 per cent. Nevertheless, those with more flexible arrangements often will be able to take avoiding action. Owner-managers of private companies, for instance, can keep the 45 per cent threat at bay by paying themselves extra dividends in lieu of salary increases.

Equally, husbands and wives can swap ownership of income-producing assets if one is a potential 45 per cent payer and the other is not.

David Cohen is a partner in the City law firm of Passner & Co.

Quote... unquote

Q&A

BRIEFCASE

No legal responsibility can be accepted by the Financial Times for the answers given in these columns. All inquiries will be answered by post as soon as possible.

No pay slips from employer

I have been in my first job for 2½ years and I am paid weekly by cheque with no supporting documentation.

I have recently become aware that my employer should provide pay slips showing gross pay, deductions and net pay.

My employer says I am not on a 'pay-as-you-earn' system. As such, deductions have been made for income tax or National Insurance and I have, unwittingly, become liable for arrears. What steps should I take to regularise my position?

It could be that your pay is below the National Insurance and Paye thresholds, in which case you have nothing to worry about. But we suggest you talk things over with, say, someone at a Citizens Advice Bureau.

1. What is the tax position in relation to the selling of 'puts and covered calls'?

2. Is the profit from buying puts and calls classed as capital gains?

3. Can the losses sustained be set against capital gains for tax?

We take it you are talking about LIFFE equity options only. (If we are wrong in this assumption, please come back to us with details of the precise traded options in which you are interested, because the tax rules for some traded options are different from those outlined below).

The answer to both questions 2 and question 3 is yes. As for question 1:

(a) Selling an option which expires unassigned. The net premium received is treated as a capital gain which arose on the day the option was sold. (There is no indexation relief).

(b) Selling an option and making a closing purchase. The net profit or loss is treated as a capital gain or an allowable loss which arose on the day on which the option was sold. (There is no indexation relief).

(c) Selling a put option which is assigned. The net pre-

mium received is treated as reducing the cost of the shares put. (Indexation relief on the eventual sale of the shares put is calculated on this reduced cost; the shares put are treated as having been bought on the day on which you are given notice of assignment).

(d) Selling a call option which is assigned. The net premium received is treated as part of the proceeds of sale of the shares called. (Any indexation relief on the cost of the shares called is calculated up to the day on which the notice of assignment is given, and the consequent capital gain is treated as arising on that day).

If there is an allowable loss, there is no indexation relief, of course, but transitional relief (up to the £10,000 limit for 1993-94 and 1994-95 together) would be available for notices of assignment given before April 6 1995.

Ask your broker, or LIFFE's publications department, for the free Private Investor's Guide to the Taxation of LIFFE Equity Options. (It was written after publication of the Finance Bill last January, but before the CGT rules were amended at the report stage in April).

Random and arbitrary?

As an investing member of several building societies, I was unaware that if my share account had not been open for two years, I would lose out on rewards or advantages that depositors (rather than shareholders) would get.

I have received a letter from the Cheltenham and

Gloucester building society telling me that, as my share account was not open by December 31 1992, I shall not qualify legally for payment in the distribution of the £1.8bn cash bid from Lloyds Bank. On the other hand, depositors qualify if their accounts were opened by March 31 1994. This appears to me to be a random and arbitrary decision.

The letter from the C&G resulted from a High Court action interpreting the legislation regarding take-overs of building societies.

The decision to restrict payments to those who have been with the society for a minimum of two years is not without precedent and is certainly not random and arbitrary.

You might wish to know that the C&G has opened a telephone help-line which can be contacted on 0345-889 900 from 9am to 5pm Mondays to Fridays, and 9-1 on Saturdays. (Reply by Barry Stillerman of Stoy Hayward).

CGT need not be paid

Where a holding of shares included in a person's estate shows a considerable capital gain, is this deducted from the value of the shares (less exemption £5,000) for inheritance tax purposes?

Alternatively, if the shares are bequeathed to a beneficiary, is the liability for CGT also transferred?

The answer to both questions is no.

Capital gains tax on death was abolished in 1971 (although there is an income tax charge on death in respect of those types of capital gain which are treated as income). Ask your tax office for the free leaflet IB45 (What happens when someone dies).

Making money from options

I am considering dipping a toe in the traded options market with a view to increasing the returns from my equity investments.

Back with a bang

Now that the take-over of Confederation UK Holdings plc by Sun Life of Canada has received regulatory approval, Confederation Bank makes a return to the highest rates table with its market-leading Tessa (tax-exempt special savings account) of 9 per cent, fixed for five years.

Building societies are slowly filtering increases through to their savers. Cheltenham & Gloucester is the largest society to announce new rates so far, with increases of up to 0.4 per cent.

Northern Rock has reopened its Go Direct account. Although the account must be opened by post, cheques may be deposited and withdrawn from branches after that.

Fixed rates continue to be in favour. Leeds and Newcastle have both launched new fixed products. Norwich and Peterborough has increased rates on all its fixed products; it now pays up to 8.55 per cent on a three-year bond. The market leader for three years remains Coventry at 9.10 per cent.

For those requiring gross interest, rates offshore are also slowly increasing on ordinary accounts. The majority of banks have increased rates but the only building society subsidiary to increase has been C&G Channel Islands Ltd, Confederation Bank (Jersey) Ltd returns with its Flexible Investment account.

Guaranteed income bonds also continue a gradual rise. Enrolife went up to 7.75 per cent on a five-year bond to lead this week, only to be kept from 7.85 per cent and then by Liberty Life, with rates up to 8.25 per cent (10.31 per cent to a basic-rate taxpayer) at £50,000.

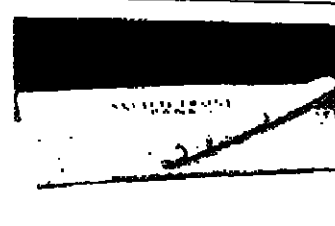
Christine Bayliss, Moneyfacts

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| Coventry BS | Fixed Rate Bond | 0800 126125 | 31.8.97 | £5,000 | 9.10%F | Yr |
| MONTHLY INTEREST | | | | | | |
| Batmans BS | Capital Trust | 0538 381741 | Postal | £2,000 | 5.37% | Mth |
| Bradford & Bingley BS | Direct Notice | 0345 248248 | 30day(P) | £10,000 | 6.45% | Mth |
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| OFFSHORE ACCOUNTS (Gross) | | | | | | |
| Woolwich Quersay Ltd | | 0481 715735 | Instant | £500 | 5.75% | Yr |
| Confederation Bank Jersey | International Flex Inv | 0534 608080 | 60 Day | £10,000 | 6.30% | WY |
| Halifax BS | Fixed Rate | 0534 58840 | 3 Year | £50,000 | 7.00% | WY |
| | | | | £10,000 | 8.10%F | Yr |
| GUARANTEED INCOME BONDS (Net) | | | | | | |
| AIG Life | | 081 680 7172 | 1 Year | £20,000 | 5.80%F | Yr |
| AIG Life | | 081 680 7172 | 2 Year | £20,000 | 6.40%F | Yr |
| Laurentian Life | | 0452 971371 | 3 Year | £10,000 | 7.15%F | Yr |
| General Portfolio | | 0279 482859 | 4 Year | £5,000 | 7.00%F | Yr |
| Barrille | | 071 454 0105 | 5 Year | £50,000 | 8.30%F | Yr |
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| Investment A/C | | | 1 Month | £20 | 5.25%G | Yr |
| Income Bonds | | | 3 Month | £2,000 | 6.50%F | Mth |
| Capital Bonds 1 | | | 5 Year | £100 | 7.75%F | OM |
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| Pensioners GIB 2 | | | 5 Year | £500 | 7.50%F | Mth |
| NAT SAVINGS CERTIFICATES (Tax Free) | | | | | | |
| 42nd Issue | | | 5 Year | £100 | 5.85%F | OM |
| 8th Index Linked | | | 5 Year | £100 | 3.00%F | OM |
| Childrens Bond G | | | 5 Year | £25 | 7.85%F | OM |

This table covers major banks and building societies only. All rates (except those under heading Guaranteed Income Bonds) are shown gross. F = Fixed Rate (All other rates are variable). OM = interest paid on maturity. WY = Net Rate. By Post only. G = 5.75 per cent on £500; 6 per cent on £25,000 and above. H = 6.75 per cent on £25,000 and above. I = 6.80 per cent on £20,000 and above. Source: MONEYFACTS, Laundry Lane, North Walsham, Norfolk, NR26 0BD. Readers can obtain an introductory copy by phoning 0892 500665. Figures compiled on: 6 October 1994.

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News from the Gulf: Vaughan Smith during the Gulf War

Minding Your Own Business

Shooting in the heat of battle

Vaughan Smith was the only television cameraman to get frontline film of the allied advance in the Gulf War. He posed as an officer taking pictures for the British army, sat undetected while officers were warned about an unauthorized intruder, then left to hitch a lift with US troops, claiming they had crashed into his Land Rover.

Smith is a former captain in the Grenadier Guards. His Gulf War earnings enabled him to finance the development of Frontline News TV, which started out as a cameraman's co-operative and has provided much of the world's TV coverage of Bosnia, Somalia and Liberia.

Its scoops include Rory Peck's Gulf War pictures of a missile-hit air-raid shelter in Baghdad, and the story of UN soldiers in Sarajevo trading on the black market and buying people's few belongings. Eighteen months before the Gulf war, Smith, who used to fly microfilm aircraft, went to Pakistan to represent a company that made the aircraft and joined a camera crew accompanying the BBC's John Simpson over the mountains to Kabul. The other members of the crew were Peck and Peter Jovenal, a former soldier, on the trip they discussed setting up a company. The following year, after the Romanian revolution, they set up the Hard News group, later renamed Frontline News TV, with Nick della Casa and Tim Weaver.

Freelance cameramen may take exciting pictures but they struggle to sell them. For individuals the problem is making themselves known to TV companies.

"It's hard to do enough for

them to remember you," says Smith.

Freelancers rarely figure in the credits at the end of TV programmes. Companies normally try to disguise the fact that they are using non-staff pictures. The idea of Frontline was to establish a name which companies would remember.

Smith ran the group from his London home and cycled round TV offices delivering material. The first year was difficult. The group had a £50,000 turnover but did not make money.

Smith's Gulf earnings enabled him to buy computers,

David Spark talks to a cameraman who specialises in frontline film

set up a data base of clients and sales, and improve the presentation of material to TV executives. He also spent £50,000 on an editing suite, which saved money and time. Annual turnover rose to £180,000.

Towards the end of 1991, Anna Roberts, a journalist and producer, joined the group to market the cameraman's material and built the number of TV clients to 70. Roberts became a camerawoman and producer and, in early 1993, Frontline hired first Susanah Nicoll and then Jane Birch to organise sales, seek contracts and run the office. Annual turnover has reached £400,000, partly because the cameramen became better at choosing what to do and doing it, partly because of work in Bosnia.

The Frontline group was

among the first users of Hi8 home video cameras for TV instead of the heavy and expensive Betacam. "People picked up Hi8s and went to war zones and came back with footage that sold," says Smith. Hi8s have become standard on BBC World Service TV.

After the Gulf War, della Casa was murdered by his guide in Kurdistan. Weaver left the group to work on his own. Beck also left to set up an office in Moscow. He was killed in the battle at the TV station when the Russian parliament challenged Boris Yeltsin.

Last May, Smith and Jovenal changed Frontline News into a limited company, with five share or share-option holders, all camera-people who work almost exclusively for Frontline. The aim is to keep ownership in the hands of the people who do the work.

Camera-people working with Frontline take responsibility for themselves and their equipment and pay Frontline a commission. They may offer features lasting six to 12 minutes to TV companies, or they may go overseas as camera crew for the networks. Smith says: "We have a reputation for war coverage and getting to places that are difficult to get to."

To attract networks, a freelance group has to be cheaper than a staff crew and yet also meet its running costs from within its fee. "That means being highly competitive and motivated. The very fact we have survived shows flexibility and motivation."

A BBC cameraman in Bosnia goes to war in an armoured car. Frontline cannot afford that. Its people probably stay with a family in Sarajevo for \$20 (£12.60) a night, instead of paying \$80 at the Holiday Inn.

Smith stresses, however, that freelancers play an important role because of their freedom from head office. "We can do what most broadcasters sometimes don't do, because we aren't controlled."

For example, he could get frontline pictures of the Gulf because he was outside the deal between editors and the British Army. Other journalists could have broken the

story of the Sarajevo Mafia and UN corruption; but they were staying in the Holiday Inn and benefiting from Mafia-provided power, water and food.

One thing which rankles with Smith is that freelancers rarely win awards. The networks give them to each other.

■ **Frontline News TV**, 150 Buckingham Palace Road, London SW1W 9TR (tel: 071-824-8334)

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FT Ski Expedition

The little resort on Alloway Street

Arnie Wilson visits Mount Dobson in New Zealand

Arnie Wilson and Lucy Dicker are trying to ski every day of 1994 on a round-the-world expedition.

At 5.30 in the morning, No 30 Alloway Street, Fairlie, can be a scene of frantic activity. Facsimile machines suddenly whir automatically, sending messages to all corners of New Zealand's South Island. Telephones ring. Answering machines are triggered all over the house.

At 6 am, a cuckoo clock cuckoos maniacally. The answer machine message echoes down the corridor: "Conditions above the valley cloud are clear and calm. All facilities are operating. There are 2 cm of new snow on a 2.5-metre base. The main runs are groomed, and there's excellent skiing on packed powder. Chains are required today."

It is the start of another day in the life of Mount Dobson ski resort, south-west of Christchurch in the Southern Alps.

Peter and Shirley Foote prefer to start their hectic day from base camp rather than at 5,500 ft. Shirley records two messages every morning in her nightie and triggers the fax machine on its helter-skelter visit to various radio and television stations, sports shops, hotels and lodges.

Peter organises staff on the mountains via a short-wave radio and then reads himself for the 15-mile journey there. (While he is doing the 15-mile journey, Shirley records two messages every morning in her nightie and triggers the fax machine on its helter-skelter visit to various radio and television stations, sports shops, hotels and lodges.)

Few people run ski resorts from their front room, and even fewer simply go out and build their own resort on a virgin mountain. The Footes did it the hard way 15 years ago, becoming involved in a bitter battle with bureaucracy.

"It took us three years just

Facts and Figures

September statistics

Miles skied: 283 (Total since January 1: 2,572)
Vertical feet: 320,983 (Total: 2,900,190)
Vertical miles: 61 (Total: 552)
Miles driven: 2,208 (Total: 25,682)
Miles flown: 1,692 (Total: 60,823)
Mileage (all means of transport): 3,957 (Total: 90,913)

Resorts visited so far: 198. (US: 50; Canada: 13; Austria: 32; France: 24; Switzerland: 23; Italy: 11; Germany: 1; Chile: 10; Argentina: 6; Australia: 12; New Zealand: 4; India: 1)

Resorts skied in September: 17

Australia: Mount Hotham; Falls Creek; Thredbo; Perisher Valley; Smiggin Holes; Charlotte Pass; Blue Cow; Guthega.
New Zealand: Mount Hutt; Treble Cone; Cardrona; The Remarkables; Wanaka (Harris Mountains Hill-Skiing); Coronet Peak; Awakino; Ohau; Mount Cook (Tasman Glacier).

Expedition sponsors

Ski the Summit, Colorado; Hewlett-Packard; Avis; American Airlines; Air New Zealand; Snow+Rock; Fogg Travel Insurance; Luhta; Degre 7; Champagne Mercier; Clarins.

to build the road," says Foote. "They wanted us to build more and more culverts. We ended up building 70. Every time we acquired over something, they came back with more red tape. We had to take it. It was either just walk away, leaving the resort half-built, or keep on battling."

"Luckily, there were a lot of people who wanted us to succeed as much as the local authorities wanted us to fail. Our solicitors, bank manager and the contractors all said they would wait for their money."

The result is one of the best privately-owned ski fields in New Zealand. It is on good powder days that it really comes into its own. After some unsettled weather, we were due for a good day. We got it at Mt Dobson, our 200th ski area of the expedition.

Higher than many of New Zealand's ski fields, the ungroomed terrain can stay light for days. Lucy and I trudged to the very top of the mountain from the highest lift and were greeted with astonishing scenery.

Spread all around us, in a gigantic arc, was the cream of the Southern Alps - reputedly more wide-ranging than those in Europe - and with Mt Cook dominating the skyline.

At the end of a magnificent day we skied down the front face of Mt Dobson, which gave us 3,500 vertical feet of non-stop powder. It was the kind of run you dream about: turn after effortless turn, with no end in sight and no need to change direction. Just straight down forever.

We felt guilty about those 70 conduits, all built by hand by the Footes. Red tape or not, without them we would have missed one of the most exhilarating descents of our nine months on skis. For each conduit, we had the satisfaction of at least 110 exquisite turns.

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The bionic knee-cap

Continued from Page 1

potentially more far-reaching in its implications. Already, electronic devices are beginning to give some hearing to the deaf and movement to the severely disabled.

Doctors have most experience with the "cochlear implant", fitted surgically into the bone behind the ear. It converts digitised sounds, transmitted from a small external microphone, into electrical signals which stimulate the auditory nerves inside the ear. These send impulses to the brain, which interprets them as crude sounds.

Lord Ashley, the UK's best-known campaigner for the deaf, brought the technology to public attention in Britain last year when he received a cochlear implant. He spoke movingly of being able to hear his family again after 25 years of silence. "I can best describe what I hear as being like listening to a croaking Dalek with laryngitis," Ashley said, "but compared with total deafness it is a miracle."

Devices to restore some hand movement to quadriplegic patients with broken backs or

necks are being developed at Case Western Reserve University in Ohio. The system relies on the fact that most quadriplegics can shrug their shoulders slightly. The movement controls a joy-stick which transmits signals to an electronic unit under the wheelchair. This activates a stimulator about the size of a heart pacemaker, implanted in the shoulder, which sends electrical impulses down the arm to the paralysed hand muscles.

The experimental hand grasp system does not restore full finger movements but it has enabled a dozen patients in the US to write, brush their hair and teeth, hold a telephone, sew and paint. Now surgeons at Salisbury District Hospital are preparing to test the system in the UK.

The only vital organ for which medical technology cannot yet offer any assistance is the brain. Even that is only a matter of time. Humphreys predicts that within 50 years it will be possible to implant memory chips to boost our failing intellectual faculties.

"If we can design an interface between silicon chips and brain cells, the first step will

be a pre-programmed chip which the brain could read," Humphreys says. "Ultimately we would like the brain not to notice the implant and to treat it as another piece of brain tissue. Then we could get the brain to record information on the silicon chip and read it when necessary."

Although Humphreys is more willing than his cautious colleagues to speculate publicly about the future of biomedical technology, many scientists would regard his vision as a reasonable extrapolation of current research. Most would see brain-boosting implants - whether to extend human intelligence or to treat diseases such as Alzheimer's - as a welcome development, not a sci-fi nightmare.

There is an interesting paradox here. As medical scientists add increasingly sophisticated implants to people, so robotics researchers will be giving machines the mental and even anatomical features of humans. During the coming Bionic Age, the distinction between human beings with implants and humanised robots will become increasingly blurred.

TRAVEL

Renaissance flowers again in Florence

Derek Wilson enjoys 20th century comfort in 16th century surroundings

For years, visitors to Florence have opted to inspect the Renaissance by day and to give it a miss by night, preferring to sleep in comfort rather than rough it in some derelict 16th century palazzo without hot water.

Change is afoot. You can now sleep the Renaissance as well as see it - and in comfort.

A small group of hoteliers has pioneered the restoration of Renaissance properties to make them suitable for the most choosy tourist. In so doing, they have resisted the cheap - and easy - path of wholesale conversion of buildings which has been followed by all but a handful of the 350 hotels in Florence.

Four have chosen the hard way. In each case, family pride has been a principal reason. Encouragement, too, came from the Florence town council, which has a new policy aimed at making greater use of historic buildings.

All the emphasis in these four instances has been on re-creating the physical setting of the Renaissance, with less regard for other matters such as food. Only one, in fact, has a restaurant, although all four provide lavish breakfasts.

The most spectacular is Torre di Belloguardo, a big, sturdy 18th century villa on a hill beyond the Arno. "I simply wanted to save the place," says Amerigo Franchetti, the owner. He says that 180-year-old pupils used to arrive at 8am and wreak destruction. "I had to get rid of them. In another five years they would have wrecked the lot."

The core of the hotel is a stumpy tower built perhaps as a hunting lodge before 1800 by Guido Cavalcanti, poet of courtesy love, and a friend of Dante. Later confiscated from the Medici, it passed to the

land-owning Roti Michelozzi family who much later ceded it to Franchetti's romantic grandmother.

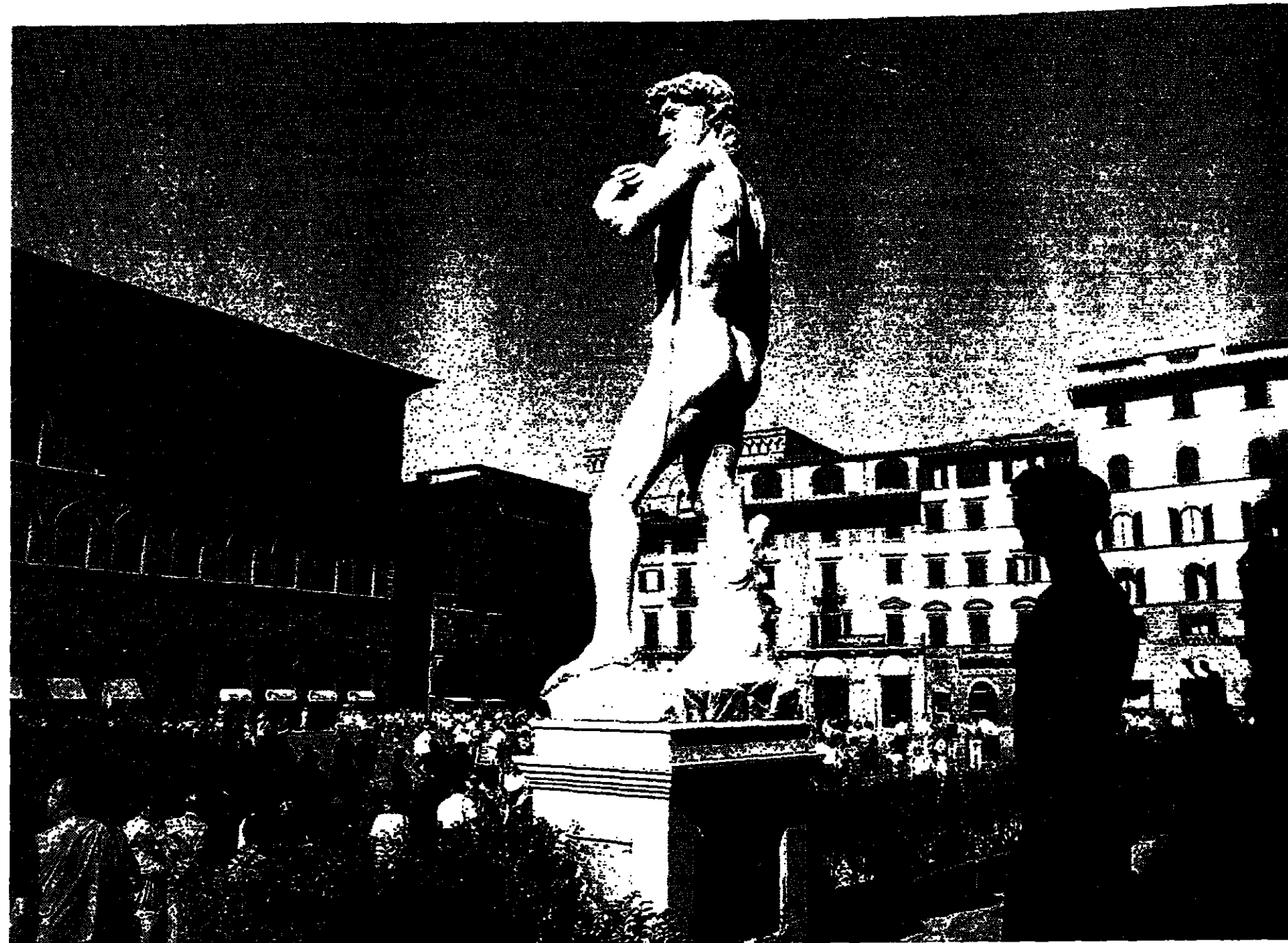
"She was a German from Munich called Marion Hornstein. She took one look at this place and decided it was the abode of her dreams and all that rot," says the owner. "She married an Italian. Then my father told her one day in 1913: 'If you like this place so much, here's the money'. He'd married into the Rothschilds. Paris branch. When she died in 1948, the family let it to finishing schools, then to that terrible day-school."

The restorers took 10 years. Already the high facade is peeling, but inside the building walls are in space: a mirror of spartan Tuscan luxury. Reception is a table in a great hall-room frescoed by one Bernardino Poccetti, a prolific 16th century hack. The music-room boasts a fine sculpted chimney-piece and is bare, a stone ratty does for stairs; canopied beds, sticks of medieval furniture and coats-of-arms in huge rooms complete the feeling, as do aged carpets.

Fridge-bars and TV sets have been banned and superb bathrooms are ingeniously dissimulated. Concealing the swimming-pool in gardens ablaze with flowers proved a tougher proposition.

A friend of Franchetti's, Rodolfo Budini Gattai, runs what was a guest-house for clerics built in 1518. Discreetly tucked away under the arches of the very central Piazza della Santissima Annunziata, this is the Loggiato dei Servi. It faces Brunelleschi's Spedale degli Innocenti, the foundlings' hospital, and was included in the matching portico designed by Antonio da Sangallo.

The fathers kept their lodgings for visiting prelates. They were



Statue of David, Florence: the city can now add restored hotels, dating back to the Renaissance, to its list of artistic treasures

clearly well-heeled since the rooms are commodious chambers: you wake up to Tuscan coffered ceilings and lofty ribbed vaulting.

"My family bought the Loggiato in 1870 after the confiscation of church property," says Gattai. "At first it was rented out as flats, but in 1924 my grandmother's coachman was allowed to open a boarding-house here. Well, he married an Irish lady, one Katherine Doyle, and in the 1930s their pension was popular with the English and Irish. I and my brothers took over in 1984. We wanted to resur-

rect the original."

The most stylish of the four is the Monna Lisa in nearby Borgo Pinti - a superbly preserved 15th century patrician dwelling set around a small courtyard with a garden in the back. The dominant artist on display is Giovanni Dupre, a 19th century Sienese sculptor whose descendants own the place. Oslavia Ciardi Dupre bought out the Marzocchi-Lenzi family, its owners for generations, in 1968.

At the Monna Lisa, Florentine good taste comes with a touch of clutter: there is Dupre family trea-

sure scattered about, including five centuries' of furniture and a plaster model by Giambologna for his *Rape of the Sabinas* in Piazza della Signoria. There is a tasteful restaurant amid pillars and pictures.

Cheaper is the oddly-named Aprile, near the station. It is as Renaissance as they come, a pugnacious three-storey clan fortress with huge eaves and no nonsense. Once known as the Palazzo del Medici, and then as Palazzo del Borgo, this is a warren of a place with a lived-in feel to it. The old structure survives intact, bumps, wasted

space, crannies and all, each one deftly exploited.

"My family has been there since 1815," says Marcella Ascoli-Bellafini. "We were textile merchants. I was born there and my mother stayed on until the '60s. Why Aprile? Oh, I was young and silly and when we let it to the Cantini Zuconi family 40 years ago, I let them call it after the month they moved in. I've regretted it ever since."

Torre di Belloguardo: Via Roti Michelozzi 2, 50124 Firenze. Tel: (055) 228145; fax: (055) 228008; 15 rooms: single: L230,000-L250,000;

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Moules and masterpieces

Susan Moore worships at the altars of art and food in Bruges

A larger than life Jan Van Eyck, brush and palette in one hand and beloved bagpipe by his side, presides over the small square by our hotel.

We breakfast on strawberries piled in blue and white bowls lifted out of a 17th century still life, marvel at Michelangelo, take deep draughts of Memling and blond beer tasting like nectar, and dine robustly in the house of the Renaissance painter Pieter Pourbus.

From day one it is clear that Bruges is a place to worship at the twin altars of high art and the soon-to-expand stomach.

For this is a city where moules comes by the four-litre pan, extra fries are offered as a matter of course, and every cup of coffee comes accompanied by a chocolate. And Bruges at table is so like Bruges in the street.

Streetscapes of canals and crow-stepped gables have earned it the reputation of the Venice of the North, but there is none of the Sereusissima faded splendour or aristocratic hauteur. Bruges is unashamedly bourgeois: prosperous, spic and span and polite. In this heavily restored Venice, there are no surly waiters or good food only if you know where to find it. Here geraniums in window boxes adorn even the inside of canal walls.

Bruges is as pretty as any picture and, oddly enough, comparably two-dimensional. Like its alter ego, it is awash with tourists in season but, unlike it, there seems no escape from the crowds or the lace shops. Strolling along cobble streets past ornate, once-medieval public buildings and soft domestic red brick, it seems a city of facades but few interiors. It almost would not surprise me to discover that the whole place was an ingeniously constructed film-set.

There are, however, at least three glorious places of refuge. The spartan interior of the Onze Lieve Vrouwekerk - more familiarly Notre Dame, but here Flemish, even English, is preferred to French - boasts the sumptuous gilt-bronze Renaissance mausoleums of Charles the Bold and his daughter Mary of Burgundy; visible

beneath them, thanks to judiciously placed mirrors, their original narrow tombs, gauchely painted red and black like early wood cuts.

Here, too, is the Michelangelo, a pensive marble Madonna seated on a rock, the standing Christ-child, eyes cast down, nestling between her legs and clasping his mother's left hand. Her mournful sadness is heart-rending.

The sculpture was made for Siena Cathedral but sold instead to the Mouscron family of Bruges. We were not supposed to view it head on, as currently aligned - the evidence is the cut of the marble. Stand way to the left to see it at its best.

St James's Church was the original location for the Moreel altarpiece by the far from "Primitive" Hans Memling, a triptych which, not only includes portraits of the donor Willem Moreel and his wife but their five sons and 11 daughters.

Memling is the city's greatest adoptive son who left his native Rhineland to pursue a lucrative career in cosmopolitan Bruges in 1465. St John's Hospital, now the Memling Museum, still lays claim to handful of his masterpieces.

The Groeningemuseum (which is host to a major Memling exhibition, until November 15) also boasts Jan Van Eyck's wondrous "Virgin and Child with Canon van der Paele". But then, one of the great advantages of visiting Bruges is that Ghent is only 20 minutes away by train. There, in St Baaf's Cathedral, locked in bullet, earthquake and everything-proof glass is "Adoration of the Mystic Lamb", the most sublime evocation of heavenly paradise ever painted. That was our ambrosial lunch, and there was plenty of time to get back before dinner.

The author travelled from Ramsgate to Ostend by Sally Lines jetfoil (reservations 0843-595522) and stayed at the 18th century Relais Oud-buis Amsterdam in Bruges (tel: 050-34 18 10). The crossing takes 1hr 40 mins. The train direct from the port of Ostend to Bruges takes 12 minutes.



Pink Snow

The FT's annual guide to skiing will be published on Saturday 15th October this year.

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FOOD AND DRINK

Entertaining at home

Wineupmanship: beating the bores

Jancis Robinson on safe bottles for the pickiest of dinner guests

In my experience, the more wine expertise someone claims, the less they generally have. Only a beginner would claim to know a lot about wine; those of us who have spent a couple of decades immersed in the subject are only too painfully aware of how much more there is to learn.

People with a little wine knowledge tend to wear it heavily. My heart always sinks, for instance, when someone begins a conversation with "In my cellar..." It is difficult enough to make a discussion about the wine in your glass interesting, let alone one about someone else's firmly corked bottles.

I sympathise, therefore, with anyone required to entertain those who claim to know something about wine. Will the choice of bottles reveal one as an irredeemable cheap-skate or vinous lowbrow?

As so often, the solution is not necessarily to throw money at the problem. Very few wine merchants' most expensive bottles are anything like ready to drink (exceptions include Reid Wines, of Hallatrow, near Bristol; La Vigne-rune of London W7; and Butlers Wine Cellar, of Brighton, Sussex).

The answer is to show flair, wineupmanship, and spend less, by

choosing some hot, new (or revived) wine types.

The insider's whistle-whetting aperitif, for example, is top quality Riesling, preferably a Mosel Kabinett from a quality-conscious producer (which is unlikely to cost much more than £7).

The VDP symbol on the label or capsule is a shorthand way of identifying Germany's goodies, a very high proportion of which belong to the VDP group of superior estates. Merchants who take German wine seriously include: Oddbins, 0 W Look of London SE1; Philip Eyres, of Amersham, Bucks; Harcourt Fine Wines, of London W1; Adams, of Southwold, Suffolk; Summerlee Wines, of Ears Barton, Northamptonshire (0604-810488); Lay & Wheeler, of Colchester, Essex; and The Wine Society, of Stevenage, Herts.

Acceptable alternatives include one of the host of Australian Ries-

lings now being shipped, *fauts de* Chardonnay, to the UK or a dry Riesling from Alsace. Lea & Sandeman, of London SW10, has the superb wines of Marcel Desire, and Wine Rack stores have made a particularly diligent selection.

One clever dry, fuller-bodied white and one red should be enough for most meals - although you could always demonstrate your *savoir boire* by serving a sweet wine with the cheese such as a Moelleux version of Jurançon or Pacherenc de Vic Bilh, an Italian Moscato with an alcohol of at least 12 per cent, or even (*très chic*) an Austrian Beerenauslese (try Noel Young of Trumpton, Cambridgeshire, for the fabulous wines of Kracher).

Chardonnay-based wines dominate dinner tables the world over. Much more distinguished at the moment are full, dry whites based on Rhône Valley varieties. Viognier is so sought after it is almost passé.



Rostang's 1992 version at £9.99 from Bottoms Up and Wine Rack is much meatier than most, and few wines are more out of the Guffens' Ardèche 'Fruits Défendus' oddity which is not allowed to call itself Viognier but fetches £8.13 at Laytons of London NW1 (and try André Simon shops).

A more gifted choice would be a

well-made wine based on one or both of the white Hermitage grapes Marsanne or Roussanne.

Ch de Beaucastel of Châteauneuf-du-Pape has produced an exciting old-vine Roussanne for years now. A more inspired choice might be the intriguingly packaged Sophiste, from Bonny Doon, of California. This blend of Marsanne and Roussanne has the elegance that so much white Hermitage lacks and the 1993 vintage is expected soon by Morris & Verdin at their new address in London SE1 (071-357 8866). It will be about £17.50 a bottle - not cheap but a real thrill.

Another impressive Rhône Ranger white, as the Californians call them, is Jade Mountain's Marsanne/Viognier 1993, £9.90 from Morris & Verdin.

Rather less expensive but with an interesting tang is a white Minervois based on old Marsanne

vines, Ch de Violet 1993 which Thresher Wine Shops/Wine Rack/Bottoms Up have been selling for £4.99. Australia can also provide some Marsanne, which should usually be drunk as young as possible. Pioneer exporters of Victorian Marsanne were Ch Tahbilk and Mitchem (chc: Sainsbury's), the latter now part of Petaluma's expanding empire.

Wine Rack also has an interestingly smoky, substantial, oak-aged Catalonian Malvoisie, probably the same grape variety as Sardinia's Torbato, at £6.49 a bottle.

The red wine possibilities for stunning a wine bore are much wider. The Rhône can again provide, particularly in the form of the less famous appellations. Crozes-Hermitage can now be a serious wine, from the cellars of the likes of Grailot and Belle (see Lay & Wheeler and Oddbins) or, another Rhône from Syrah grapes, you

could even buy the earthy red Brézème from Yapp Bros, of Mere, Wiltshire and confound with obscurity.

But I would be inclined to head out of France altogether and pick an Italian plum from Winecellars of Wandsworth, London SW18 or Valvona & Crolla, of Edinburgh. The nice thing about Italian fanatics is that they advise while proselytising.

A fine Ribeira del Duero, such as Pesquera (from John Armit Wines, of London W11) would also impress with its demonstration of insider knowledge. Both these wine styles need reasonably chewy, assertive food, however. If you are planning a subtler main course, a West Coast Pinot Noir from the particularly fine selection of The Wine Treasury of Fulham Road, London SW6 is guaranteed to delight.

They have such gorgeous California Pinot Noirs as Williams & Selyem (a tiny allocation), Olivet Lane and Kistler, and the extremely convincing Christom, regular and Reserve, from Oregon.

The Chilean Cono Sur regular Pinot Noir bottling at £4.49 from Oddbins and Safeway is less serious, but its quality should fascinate anyone with half an interest in wine.

Eating out

First, catch your (Maine) lobster...

Lobsters. I decided sitting back one evening and surveying my shell-strewn, butter-spattered table at the Dolphin Marina Restaurant, are hard work. I should have guessed as much when they began handing out foul-weather gear. Disposable plastic bibs are *de rigueur* for lobster-eaters in even the more sophisticated seafood establishments in America - in some places motherly waitresses will tie them on for you.

Then came the specialised equipment - the pincers for cracking claws, the long skewers for probing recessed corners, the bowls for rinsing. It was all new to me. I felt like a trainee dentist.

And what about the vast expertise required? How much experience, how many botched jobs does it take before the seasoned lobsterer can artfully dismember this complex little crustacean? I watched one man at the table beside me deftly remove the meat from his lobster's tail with one clean pull. There was hardly a drop of juice splattered on his bib. My own catch looked like a Jackson Pollock painting. You could have made Thermidor with what lay in my lap.

And is it, in the end, worth it? After the first bite I could only say yes, it most certainly is. But lobsters, sadly, do not come cheap. Here, on the Maine coast, home of what are said to be the best cold-water lobsters in the world, the pound-and-a-half beast I had just consumed cost \$20. Try eating the same creature in some up-scale restaurant in a western European capital, though, and you might have to pay for it by instalments. All in all, I decided, the lobster-lover's lot is a hard one.

"Just about as tough eating a lobster as it is catching one," I remarked to the young waitress who, as I mopped melted butter from my eyebrows, had begun cleaning up the battlefield in front of me. It was only the happy prattle

that comes after a good dinner, of course, but she seemed to take it literally.

She looked at me, looked out the window at a wind-whipped sea and boats tossing at their moorings, then back at me again.

"Get real, will ya?" she said.

□ □ □

I decided, the very next day, to get real. My waitress had been right - much as I liked lobster, I hadn't the faintest idea of how easy or difficult it was to catch one. All I knew was

Nicholas Woodworth's
worthwhile struggle
with steaming
crustaceans

that they were lured into large crate-like traps. But no one visiting Casco Bay, east of Portland, could avoid knowing that; most people here make their living from lobstering and traps sit in every backyard and on every wharf in sight. It should not be too difficult, I thought, to get as close to a snapping live lobster as a steaming red one.

On Cook's wharf, 20 minutes drive from the Dolphin Restaurant on Orr's Island, I came across hundreds of lobsters scuttling about the bottom of a large holding tank. More importantly, I came across Ernest Hillman, the man who caught them, and the *Franny Ellen*, the 36-ft lobster-boat he caught them from.

Hillman was refuelling at the wharf's diesel pumps before heading out to pull up 400 traps he had laid in 80 separate strings two days before. I explained my interest in lobsters - not the ones already swimming in butter but those still

crawling about on the bottom of Harpswell Sound, the broad Casco Bay channel that stretched away in front of us. Could I come along, I asked? Why not, replied Hillman, he had something to tell me.

We shoved off with Hillman at the wheel and his two deckhands, Joe and Chris, sorting out cases of baitfish in the stern. A purpose-built lobster-boat, the *Franny Ellen* carries a large tank of pump-circulated sea-water and a platform for traps on her aft deck; there is not much working space left over.

"Better ride with me in the wheelhouse", Hillman warned as we headed into the sound. "Once the ropes start paying out it gets kind of hairy back there - you get your foot caught in a coil of rope and all of a sudden you'll find yourself being dragged 80ft down on a string of traps. We lose one or two men that way every year." I rode, very happily, in the wheelhouse.

For a layman like me it was a perfect day, the wind of the previous evening had dropped and we cruised out into a sunny, calm, scintillatingly clear autumn morning. In this weather the thousands of coloured lobster buoys that cluttered the sound - each one marking the beginning or end of a string of traps - stood out brightly against the deep blue water.

For a lobsterman like Hillman, though, the day was less than perfect. It was full moon, he explained, a phase that created huge tides rising and falling more than 15 feet in Casco Bay. With strong currents like that running, he said, lobsters tend not to wander round in search of food but to stay put in holes and depressions on the floor.

We came to a floating buoy marking one of Hillman's strings. His buoys are black and orange, the other 30 or so lobstermen he fishes Harpswell Sound with having their own colour combinations. Nonetheless, with some 12,000 traps out in the sound, locating one's own dispersed strings in this multi-coloured



maze - and not tangling them up with a neighbour's - requires a prodigious memory and skill.

The first string, as Hillman predicted, was disappointing. Winding the rope attached to his buoy around a hydraulic winch, he began hauling in his string of five traps. Each held three or four antennae-weaving, tail-flapping, greeny-brown camouflaged lobsters; all but one, however, had to be thrown back.

"Too small", Hillman explained, measuring each carefully with a

brass lobster gauge. Take anything measuring less than 3½ in from eye to end of body carapace and you loose your licence for three years. Take a female with eggs and you are in real trouble. For every 100 lobsters I catch I keep only about 20."

As Hillman hauled traps, Joe rebated them, sewing in two or three bait-fish carefully trussed in nylon mesh. While the quaint lobster pots of the past - knotted cord mounted on light frames of steamed wood - have long been replaced by

metal traps, the principle remains the same: lured by a decomposing fish, the victim makes his way through a progressively smaller aperture until, once inside, he cannot find his way out.

I began to understand Hillman's warning after Chris had all five rebaited traps lined up on the *Franny Ellen*'s stern. As he threw the first one overboard Hillman bit the gas and 600 feet of rope and 75lb traps began paying out at high speed. When you have to haul anything up to 750 traps a day you do

not waste time. As he worked, Hillman talked. He is the quintessential Yankee Down-easter - tough, resilient, enterprising and hard-working. He grew up on Casco Bay and began lobster-fishing when he was 12 years old. In the 1970s a hurricane sank his boat and he had to fight hard to get back into what is an expensive business - a lobster-boat these days costs upward of \$80,000, a single trap \$75. But Hillman loves boats and fishing; they are only thing he knows.

He surprised me, then, by asking if I wouldn't like to become the owner of the *Franny Ellen* and all the gear that goes with her. I would not even have to buy her. All I would have to do was win her.

Why? I asked. Six months ago, it turned out, a pair of lobster traps fell on Hillman, damaging his spine and injuring an arm. He is fast reaching the end of his trap-hauling days. When he put the *Franny Ellen* up for sale he received a number of offers from young fishermen, deckhands wanting to start up on their own. But lobster-fishing is a risky business: while some skippers are in the six-figure income bracket, many more go bankrupt. None of Hillman's prospective buyers could come up with the bank loans they needed.

Hillman's solution? He has set up an essay competition. If he can attract 2,000 contestants each paying an entrance fee of \$80, he says, he can recoup the value of his business. He walks away with the entry money, and the writer of the best essay, to be independently judged, walks away with his boat, 750 traps and 14 miles of rope. The essay topic? Fishing, of course - 250 words of finely-honed prose on Ernest Hillman's favourite subject.

The morning wore on and slowly the tank on the *Franny Ellen*'s deck filled with lobsters. In the end it turned out to be not too bad a catch: at Cook's wharf we off-loaded about 300 of the little brutes, each with their claws carefully strapped tight with a pair of bright yellow elastic bands.

Later, flying home, I day-dreamed about those lobsters. I had no difficulty imagining them flying off, like me, to distant destinations. In my mind's eye I could see them roaming about restaurant display tanks in New York, diving into boiling vats of water in Rome, swimming through Newburg sauce on dinner plates in Paris. And, if I closed my eyes and thought very hard indeed, I could see them in a trap on the deck of my very own lobster boat in Maine.

Readers interested in Ernest Hillman's essay contest may contact him on tel: (207) 833 6010 or fax (207) 833 5866. Deadline for essay entries must be postmarked on or before October 15.

Cookery/Philippa Davenport

Is there anyone for squash?



I was planning a figgy dessert, I explained, and I thought that vinous-rich mulberries might provide the perfect finishing touch. Any chance, I begged, that she could let me have some. Kindly she agreed. Hence today's second recipe.

GOLDEN NUGGET WITH GOAT'S CHEESE, TOMATOES & THYME
(SERVES 2-3)

Choose a flat rather than a ball-shaped squash if possible so that when cut in half each half looks a little like a deep

fluted flan tin. The quiche-like filling is deliberately highly flavoured to foil the dense chestnut quality of the flesh. Cut the halved squash into wedges (like a pastry-less flan) for a first course for six to eight. Or allow one half squash per person for a handsomely rustic supper (in this case the squash is best eaten with a spoon).

Serve with good bread and a salad on the side.

1 golden round squash measuring about 5½-6 in in diam-

ter; 2 oz Mendip or chèvre log goat's cheese; scant ¼ oz butter; 1 egg; 2½ fl oz single cream; 2½ fl oz double cream; 1-2 sun-dried tomatoes, drained of oil or rinsed and dried if packed in salt; thyme and oregano or marjoram.

Cut the squash horizontally in half. Scoop out coarse fibres and seeds. Use the tip of a knife to slash the hollows shallowly with criss-cross cuts. Rub the hollows and the fleshy rims with butter.

Sit the squash, cut side up, in a baking dish or in individual *oeuf sur le plat* dishes, propping them with wedges of bread as necessary to keep them level and steady.

Cover loosely with a dome of foil and bake at 400°F (200°C) gas mark 6 for 30 minutes, brushing the rims with melted butter once or twice as they cook.

Beat the egg lightly and mix it with the cream. Snp the tomato(es) into small pieces, add them to the creamy mixture and leave to soften while the squash bakes. Then stir in the diced cheese, plenty of thyme, some oregano and sea salt and black pepper to taste.

Carefully spoon the highly flavoured custard mixture into the hollows of the squash and bake for 30-30 minutes more until the squash is perfectly tender and the filling is softly set like a quiche-type custard. Serve warm, rather than piping hot from the oven.

MEDIEVAL FRUIT FLAN
(SERVES 3)

The ancient combination of saffron and honey, multi-seeded ripe black figs, wine dark mulberries and handfuls of nuts make this a memorable dessert - and it is simplicity itself to prepare if you cheat and buy a ready-made sponge flan case. If you cannot lay hands on either mulberries or

blackberries, use one extra fig instead.

1 x 10½ inch sponge flan case; 1 x 200 ml tub of crème fraîche; ¼ teaspoon or so of orange flower water; 4 level tablespoons runny honey; a good pinch of saffron; 4 very large ripe black figs; 4 oz ripe mulberries or blackberries (optional); 1 oz pistachio kernels (2 oz in the shell); ½ oz slivered almonds; ¼ oz pine-nuts. Stand the jar of honey in a pan of hot water for at least 20 minutes so the contents become very liquid. Meanwhile pound the saffron to a powder with mortar and pestle, pour on 2-3 teaspoons boiling water and leave to infuse.

Shell the pistachio nuts, and toast the almonds and pine-nuts in a fatless frying pan over low heat.

Beat the orange flower water into the *crème fraîche*. When smoothly blended strain the creamy mixture over the flan base. Slice the figs and lay them, just overlapping, over the cream. Scatter with berries and sprinkle with nuts.

Measure the honey carefully into a small bowl that has been warmed by rinsing it out with hot water. (If you do not have a standard tablespoon (15 ml) measuring spoon, use a tableware dessertspoon - as the capacity of tableware spoons tends to be much greater than that of measuring spoons, and too much honey will make the flan oversweet.) Stir the saffron into the honey and drizzle the mixture over the fruit and nut filled flan.

Leave until cold before serving with a bowl of soured cream or *crème fraîche*.

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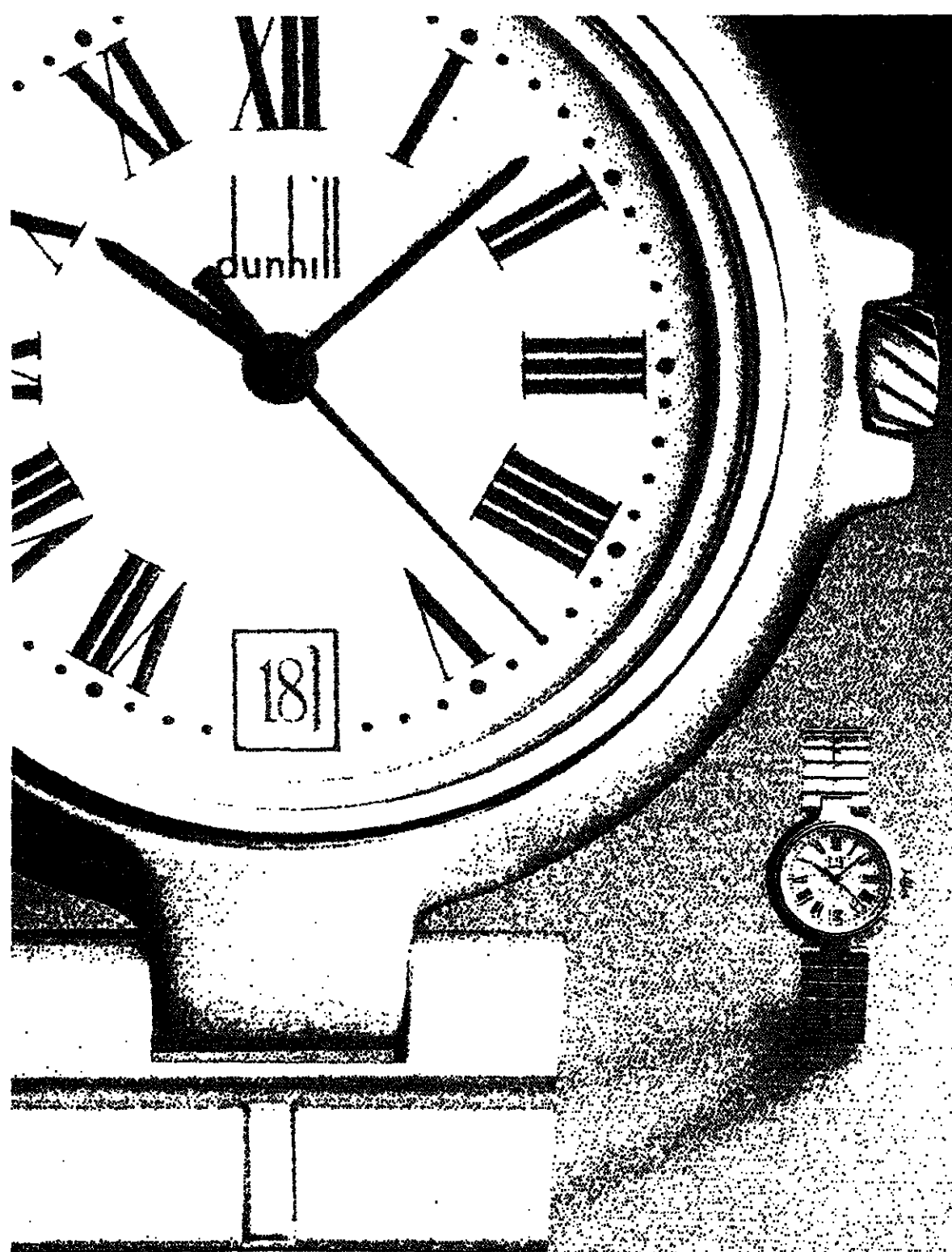
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Brown leather boots with wraparound lacing, £59.99 from Shelley, 266-270 Regent Street, London W1. Tel: 081-450-0068.



Navy gabardine unstructured single-breasted three-quarter-length coat, £310 by R. Newbold, 7-8 Langley Court, London WC2.
Cream silk knit cardigan with satin-bound rever collar, £163, by Designworks, 19 Avery Row, London W1. Tel: 071-355 4854.
Fine check cotton shirt, £135, by Dries Van Noten at Browns, 23 South Molton Street, London W1. Tel: 071-491 7833.
Claret velvet trousers, £98, by Designworks as above.
Brown leather lace-up boots by Paraboot, £195, at Office Stores nationwide.

When a business man buys an overcoat its suitability for work is a priority - which usually means a degree of sobriety: cloth that is dark, lines that are tailored in classic style. Once acquired this is often the only serious coat he owns - for weekends and off-duty hours pseudo-mountaineering styles and four country looks take over and he usually dons an anorak or, possibly, a waxed jacket.

But the formal weekday mantle need not be banished to the closet on Friday nights. Classically traditional overcoats can be made to work a seven-day week if you choose carefully.

Today's eclectic fashion mood means a well-chosen greatcoat can be sharp and effective when arriving at a high-powered meeting, yet stylish and relaxed if teamed with a heavy fisherman's sweater and a pair of corduroy jeans.

It would work equally well with layers of unstructured shirts and tops.

David Mullane, the buyer for the high fashion emporium, Warehouse, in Glasgow, says: "The more classic the coat, the more suitable it is to be worn casually as well."

Indeed, the better fashion designers have realised this and are producing more classic coats that can happily cross the divide between office and home, from city to country, and become one of the most versatile garments in a man's wardrobe.

Traditional city looks have

been plagiarised and adapted to mix and mismatch in looks from designers such as Katharine Hammett, Giorgio Armani and Paul Smith.

They have brought traditional coat styles, such as the velvet-collared Chesterfield and the double-breasted padcock coat, up on to the catwalk. British and Italian designers are pilfering the traditional city wardrobe and creating new classics from old.

Dolce e Gabbana, the Italian design duo, are leaders in this post-modernist design ethic, gleaming trends from the well-groomed commuter and marrying oversize Crombies and double-breasted woollen car coats with sporty leggings and corduroy.

The real appeal of these coats is that they offer high quality and high style and long-term value.

A beautifully-made garment in an avant-garde style may be a thrilling fashion statement but it is far too frivolous for many to contemplate. Money spent on a long-lasting classic, that can be worn in many different ways, makes a lot of sense.

Today's male customer is much more interested in fashion and design than his father. He wants fabulous clothes that are well-made, recognised and admired by others, and yet are not too showy or aggressively fashion-conscious.

Adrian Clark, fashion editor of Fashion Weekly, welcomes a return to traditional tailoring and classic coats. But he reminds us that too casual a look does not look right in the city.



Black double-breasted full-length wool berathos coat with half back-belt, £334, by Joseph Horne, 28 Sloane Street, London SW1.
Zip-neck moleskin turtleneck sweater in beige melange, £70, by John Smedley at Harrods and Harvey Nichols, London SW1.
Black suede biker's jacket from selection at Katharine Hammett, Sloane Street, London SW1 - to order.
Black leather trousers, £76.99 from Empire Stores Catalogue. Tel: 0345-200400.
Black leather lace-up boots by Paraboot, £195, from Office Stores nationwide.

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HOW TO SPEND IT

Crafty gift ideas with cachet

Lucia van der Post considers the pleasures of owning hand-made goods

To all those who think of the crafts as a peripheral phenomenon, it might come as something of a surprise to learn that in 1993 some 13m people visited a craft shop or gallery.

The Crafts Council has just produced what it calls an independent socio-economic study of craftspeople which says that there are about 25,000 working in England, Scotland and Wales.

These are interesting figures and evidence that the pleasure people get from making things by hand is almost matched by the pleasure others getting from owning objects that are not mass-produced. The figure, though, that would really interest me is what kind of a wage craft workers make.

The difficulty, as always, lies with the fact that few retailers have woken up to a shift in people's tastes. It still remains true that those who long for things that are individual, one-off, hand-made and desirable have few places to go where they can regularly be sure of seeing them. Peripatetic craft mar-

kets and market stalls are still the most common way for craftspeople to sell their wares.

However, many enlightened retailers discovered some years ago that just a few quirky, idiosyncratic artefacts in their shop could bring a lot of life and fun to the business of selling life's necessities.

Joseph, always a touchstone for retailers, has been selling furniture by designers such as André Dubreuil, Tom Dixon and Mark Brazier-Jones, and chandeliers, candelabra, glass and ceramics by other makers. Sales may be limited but Joseph understands that they lend a bit of dash and pizzazz to the atmosphere of the shop as well as providing a much needed platform for designers.

Egg, one of the sensational retail-

ing successes of the year - Maureen Doherty, its owner and buyer, had to shut her shop during August as she had nothing left to sell - is loved by its customers because it is

Nicole Farhi, in her airy new shop in New Bond Street, London, has gone to the trouble of scouring Italy for hand-made pieces; wooden stools, glass vases, quirky plates,

through standard retailing outlets have to absorb a huge mark-up (100 per cent plus VAT) and this puts the goods beyond the reach of many.

With its carefully sifted works, Chelsea Crafts Fair has become one of the biggest forums for arts and crafts in the UK. Last year some 28,000 visitors trooped through its doors

not like any other emporium. Besides the ranges of Indian cotton khadi trousers and jackets - and beautiful silks by Asha Sarabhai - there is always a selection of exquisite hand-made pots and hand-tied silks and smocking, goods made with love and care.

bowls and wrought-iron candlesticks. (Although one wonders why it has to be Italy when there is so much that is splendid in the UK.)

Admirable though these retailers are, there is still the big problem that there are not enough who think as they do and that crafts sold

All of which brings me to Chelsea Crafts Fair, which opens on Tuesday and runs until October 23.

Many Weekend FT readers have become regular fans, going back year after year to look for special anniversary or Christmas presents, to find a craft worker who will

make a one-off piece of furniture, a made-to-measure chest of drawers, candlesticks of specific dimensions or jewellery for a special occasion.

Last year some 28,000 visitors trooped through the doors of Chelsea old town hall in Kings Road, London and the fair has become one of the biggest, best-known forums for arts and crafts.

The work has been sifted carefully - far more people apply than can be accommodated - but the result is a big and varied exhibition where almost every craft is represented. Fashion, textiles, ceramics, glassware, jewellery, toys, papier-mâché and bookbinding - there ought to be something for everyone.

Do not, however, expect everything to be cheap. Many people who ought to know

better persist in feeling that hand-made goods should cost less than machine-made articles - but, although crafts often do represent wonderful value, they cannot be cheap if fine materials (solid wood, gold, precious stones, silver, enamels) and intricate workmanship have been used.

I urge London readers not to miss the Chelsea Crafts Fair. There will be a completely different set of exhibitors each week so it may well be worth going twice. The fair opens from 10 am to 8 pm, Tuesdays to Saturdays, and 10 am to 6 pm on Sundays. Entrance fee is £7 for one visit each week, £5 for a single visit.

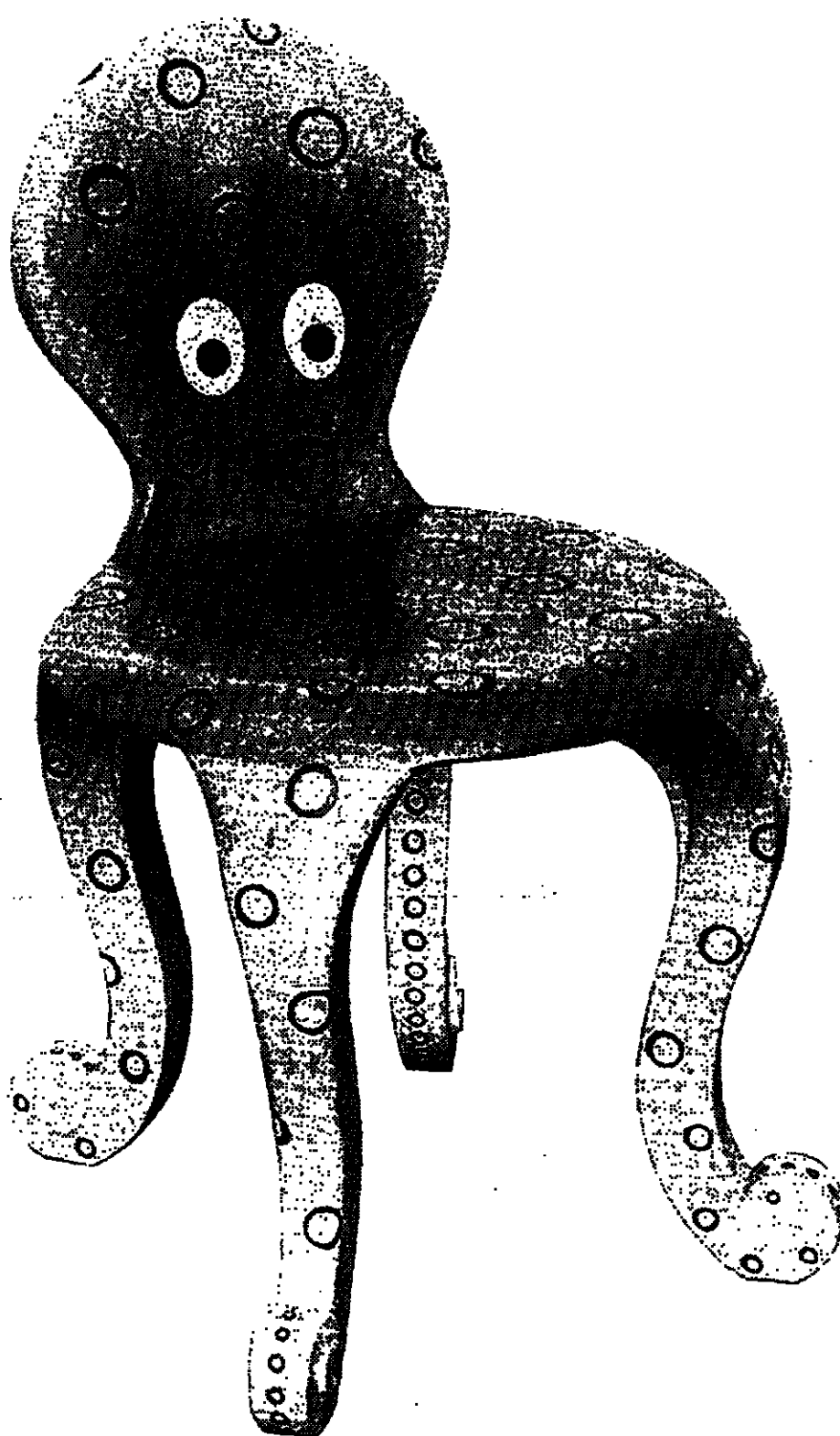
Finally, if you have time today, hurry along to the last day of the Goldsmiths' Fair, at Goldsmiths' Hall, Foster Lane, London EC2V 6BN. Jewellers and silversmiths will be showing and selling a vast range of jewellery, cutlery, salt and pepper pots, chess jugs, vases, goblets etc - again a marvellous place to pick up special presents. It is open from 11 am to 7 pm. The £1 entrance fee includes a catalogue.



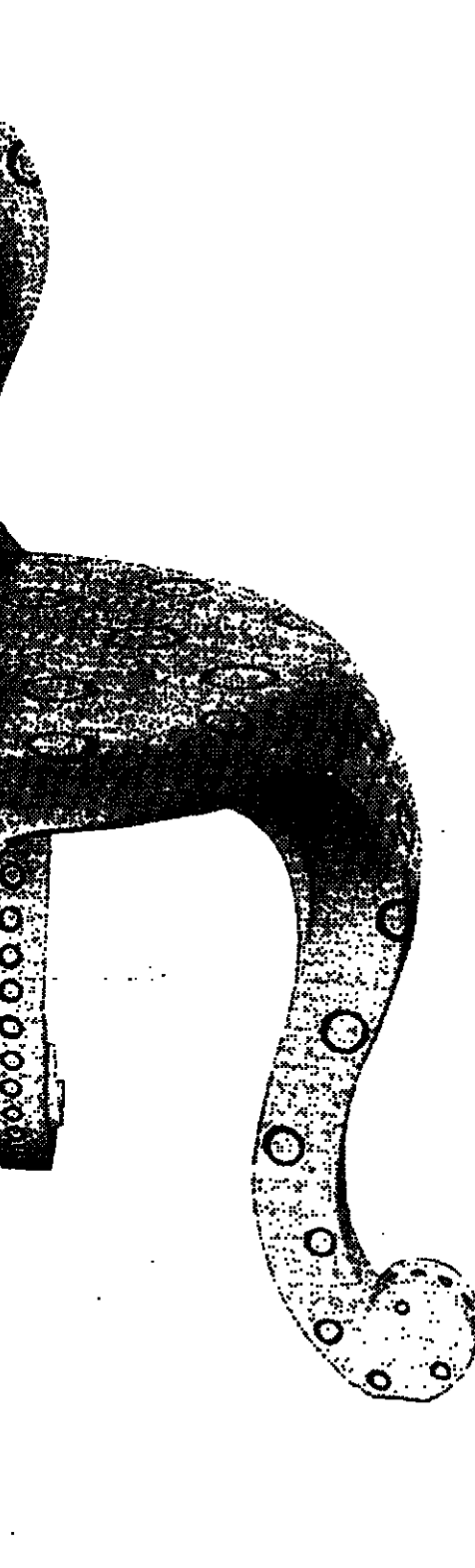
TOP LEFT: A black Mandala brooch in oxidised silver with a precious metal decoration and coloured diamonds by Alan Crazford, £1,950.



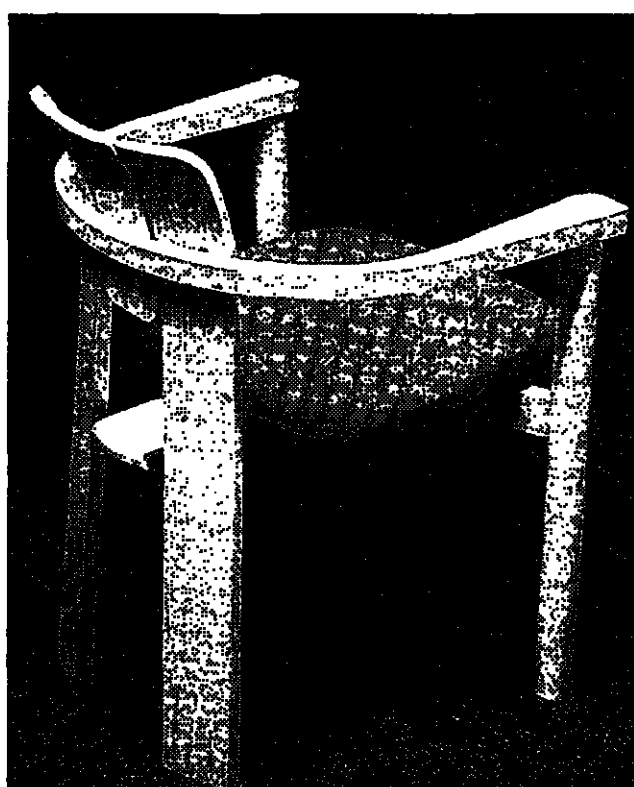
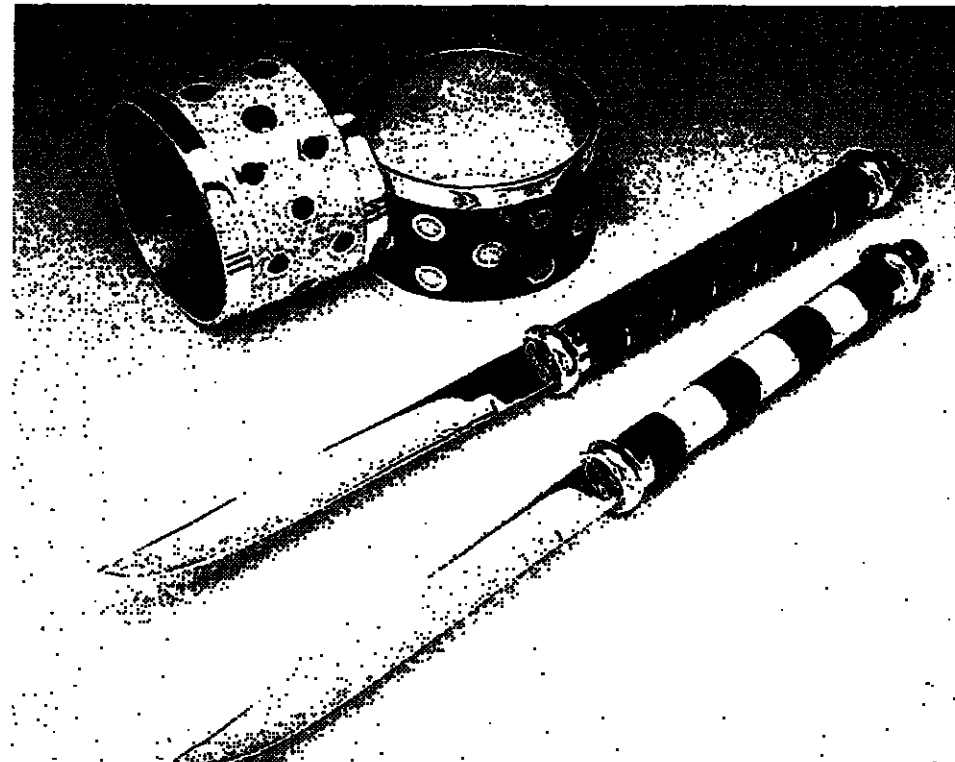
LEFT BELOW: Lion's head brooch in 18-carat yellow gold set with blue tourmaline accent stones. The lion's head is formed from a finely carved citrine. By Stephen Webster, £8,000 both from the Goldsmiths' Fair at the Goldsmiths' Hall, Foster Lane, London EC2V 6BN which is open from 11 am until 5 pm today.



CENTRE: Octopus chair of stained Southern yellow pine by Fiona Lynne Clark, £350, on show the first week at the Chelsea Crafts Fair.



TOP RIGHT: Solid silver enamelled napkin rings (£114 each) and paper knives (£136), by Claire Underwood. First week at Chelsea Crafts Fair.



BELOW the napkin rings, LEFT, Captain's chair in ashwood by David Colwell and Roy Tam together make up Trannon furniture. £370, first week at Chelsea.

BELOW the napkin rings, TOP RIGHT, a ribbed pot made from grass by Jules Tattersall, 24 cms in diameter, £95, Chelsea's first week.



BOTTOM RIGHT, one of Jools Elphick's idiosyncratic knitted hats which range in price from £78 to £153. First week at Chelsea.

Cuddly appliances for a dream kitchen

Lucia van der Post tests designs for the caring '90s

Have you heard about the sweet, caring 1990s? In case you had not noticed we have left the bad, greedy, tough 1980s behind and now we all are all supposed to be as soft as pussycats, full of peace and goodwill. This, at any rate, is the message the fashion pundits have been trying to press upon us. Now it

has reached the kitchen.

Alessi, a hugely innovative and enterprising Italian company most renowned for its fine cookware and its collaboration with French designer Philippe Starck, has joined forces with Philips, the Dutch company most renowned for its efficient but visually unexciting domestic appliances, to produce a small Philips-Alessi line of kitchen aids.

They have clearly taken the new 1990s to their hearts. Soft pastel colours, cosy rounded shapes, cute little cuddles between the two parts of the coffee maker ("the two parts snuggle up to each other like cuddly pets," say the makers) - all this says Philips-Alessi, is part of a partnership designed to "rehumanise" the kitchen.

Alessi has a fine record for managing to combine innovative design with genuinely improved function. I still think the range of cookware it devised with some of the world's top chefs way back in '87 is one of the best and, what-

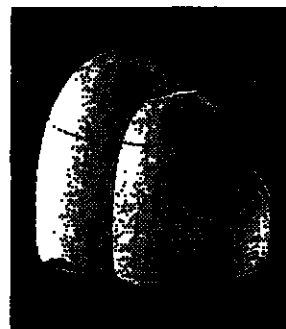
ever you think of kettles with sweet little singing birds, Alessi has injected a lot of wit and fun into what could otherwise be sombre utilitarian objects.

Certainly it was a desire to inject some warmth into the kitchen that inspired the collaboration. Stefano Marzano, Director for Philips Corporate Design, perceived among 1990s people a desire to recreate the Elizabeth David ideal of the kitchen as "the heart and soul of home life." Or as Alberto Alessi puts it: "Philips tended to see design as a way of satisfying needs, whereas we were inclined to see it as a way of fulfilling dreams. By combining these two approaches... we believe we've created the best of both worlds."

The toy-town-meets-Disney aesthetics seem to be part of an attempt to humanise the objects and the companies' statements are spattered with anthropomorphic phrases. The products, they say, "clearly form a family." And: "Clever,



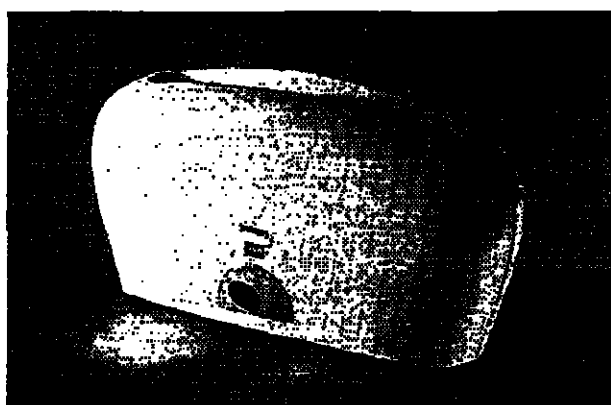
Citrus press, £79.95



Cuddly coffee maker, £139.95



Grass green and red kettle, £89.95



Cool, creamy toaster £59.95

'human' touches in the design provide the products with extra personality which... will encourage users to feel more involved in the rituals of food and drink preparation." All very nice, too.

But do they work? Alessi and

Philips between them do seem to have gone to immense trouble over function.

The citrus press, for instance, works silently and quickly, the glass simply sits beneath the spout which after the juicing is over can be

pushed back so that there are no drips.

The toaster has a sensor system which means every piece of bread is toasted to the same colour and the slot is able to cope with large, thick slices of bread. The kettle is cordless, boils one litre of water in just over three minutes and has a scale filter. All are made from combinations of polypropylene and stainless steel.

Like most artefacts with strong personalities, these will not be to everybody's taste but those who love them will love them dearly.

Three of the products (the citrus press and toaster) go on sale today in Harrods of Knightsbridge, London SW1. Selfridges, John Lewis and many other stores throughout the country, including House of Fraser Stores outside London. The coffee maker will be on sale in January.

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PROPERTY

Instant heritage: the new homes that look old

Rosalind Russell investigates the steadily-growing market for period houses that are designed and built carefully to appear what they aren't

There are people who would sooner confess they beat their dogs than admit to living in a house built after the second world war. Georgian, Queen Anne or Victorian - even Edwardian is acceptable - trophy homes are as desirable as a Land Rover Classic (as a second car), or the best school for the children.

Among the aspirant classes however, are many who balk at paying the period home premium because they are wary of inheriting old house crankiness. Increasingly, the solution is to commission a new house which is designed and built to look old - a kind of off-the-peg heritage.

In East Anglia, Stephen Mattick builds homes with traditional, vernacular parquetry that blend seamlessly into the neighbourhood. In Surrey, Paul Sweeney's new houses look so convincingly old that a local planning officer insisted they must be conversions.

In Wiltshire, Andrew Pownall-Gray, financial planning consultant with Allied Dunbar, chose Peter Borchert to design and build a "new" Georgian home. He and his wife, Judy, even sold a real Georgian house to do it.

"She was dubious because she has always lived in period properties," says Pownall-Gray. "But when she saw what Peter had done, she became an instant convert."

"It is not always easy to find the house you want in the £300,000 to £400,000 range. We wanted something which was cheap to heat, had well-proportioned rooms and didn't have too many skeletons in the cupboard."

Borchert, an aeronautical engineer and pilot - he owns part of a Tiger Moth and is helping to renovate a Walrus, a second world war seaplane - before turning to house design, employed brickwork, windows and roof slates as they would have been used in the late-Georgian period.

"There are few examples of large period country houses that haven't been got at," he says. "Where there is affluence over a period of time, people have had the money to change the house by ripping out many of the old features. To create a new one is an alternative."

Another attractive inducement, he points out, is that value added tax does not apply to new building although VAT must be paid on materials used in restoring an old



You might think it's Lutyns...but you'd be wrong. Orchard House, near Henley-on-Thames, Berkshire, is a mere two years old although built in "traditional Lutyns" style. Offers of around £1.2m are being sought

house. This certainly was a consideration for the Pownall-Grays.

The final bill for their five-bedroom house was £130,000, in addition to land costs of £140,000. When they sold it recently, they got £285,000 - which must be considered a modest success, considering the limp condition of the housing market.

"The advantage of having the house built was that we had a full bespoke service," says Pownall-Gray, who is now renting while he looks for a site where Borchert can build him a large country house.

With two children in situ, plus nanny, and twins due in November, more space has become a priority.

Borchert's previous experience includes a courtyard of new, traditionally-designed buildings including a swimming pool, pavilion, orangery and cottage in the grounds of The Grange, a restored manor house near Salisbury.

At present, he is working on five new cottages - including thatched, timber-framed, flint and brick, and rendered cobb - in the Dorset conservation village of Winterbourne Dauntsey.

Borchert admits locals were apprehensive at first about his planning application, but adds that they have subsequently been reassured as to his honourable intentions. "There is a place for modern architecture but not in housing," says Borchert, whose views on the subject have much in common with those of Prince Charles.

"We can suffer it in a car park, or a civic building. The worst examples are in concrete and glass and there's a coldness about them. They have no living qualities."

It is an attitude that provokes

fury in the modernist camp, a leading exponent of which is Czech-born Jan Kaplicky. He says repro houses are on a par with film sets.

Future Systems, the company he runs with Amanda Levee, has recently designed a four-level house in Islington, north London, with two solid walls and roof and two glass walls. Sitting between two protected buildings in an area where even the trees are on the protection register, it has attracted six pages of breathless excitement in *Vogue* magazine.

If Kaplicky had tried to build it in

Edinburgh New Town or Stow-on-the-Wald, locals would have burned his effigy in the street, his "thoughtful, dreamy lyricism" (according to *Vogue*) notwithstanding. But Kaplicky is defiant. "Every other country in Europe builds thousands of modern houses," he says. And he insists that the fact he was born in Prague, home to some of the most beautiful baroque architecture is "irrelevant".

"Only in [Britain] is there a mental block. I fully respect houses from any period, but you can't build copies. You don't have the crafts-

men who can do it without an extraordinary financial premium. They can't build the quality like they used to when people worked for pennies."

Kaplicky cites Poundbury, the model village being built in Dorset with the support of Prince Charles, as proof of his theory. He describes it as "awful, from what I've seen on television. It's basically Holly-wood".

He adds: "I don't think it is the case that you should match existing houses in a village when you are building a new one. Time goes on. You can't tell the inhabitants they must drive only old cars or horses and carriages. It's nonsense."

Yet, nostalgia is getting younger. Sir Edwin Lutyns (who died in 1944) is being copied, too. Orchard House, a two-year-old, five-bedroom, red brick house near Henley-on-Thames, Berkshire, is designed in what estate agent Knight Frank and Rutley describes as "traditional Lutyns style".

To assist its assumed identity, it was planted in a mature plot which includes river frontage to the Thames, large trees, and is also fed by an ancient moat. Less traditionally, there is a garden lighting system with a programmable waterfall into the lake. The three-bay garage block, flanked by stone balustrades, is designed to match the house and offers of around £1.2m are being sought for the whole property.

Savills, which is selling a genuine Lutyns house for £450,000 in rural Northamptonshire - admittedly, not as desirable as Berkshire - says the proof of the pudding is in the ingredients. Even a repro will command a good price if the materials used are of high quality and it is a top of the market house. This is especially so for overseas buyers who want to walk into a house without having to deal with expensive maintenance bills.

John D. Wood is also selling a genuine Lutyns: the Dutch House, near Dorking, Surrey, for £400,000. That sounds like a snip - until you realise it stands on the busy A24 dual carriageway.

Who would pay more than a million for a copy? "A true Lutyns fan would pay a premium for the real thing," admitted Knight Frank and Rutley's Andrew Rome, when pressed. But he added: "The beauty of a new house is its modern facilities. Placed in a very old setting, as is Orchard House, it is a perfect combination."

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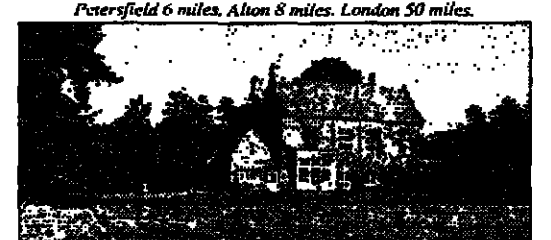
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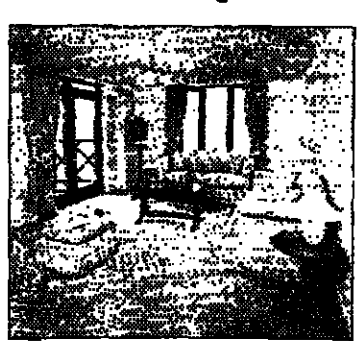


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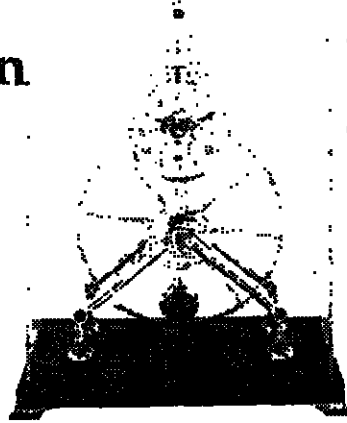
Sir Alfred Munnings (1878-1959),
Barronby Hill Point-to-Point.
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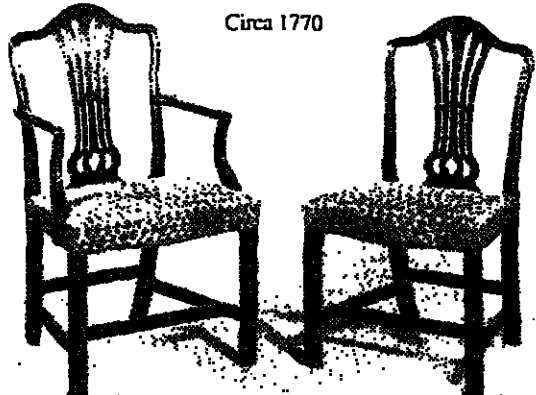


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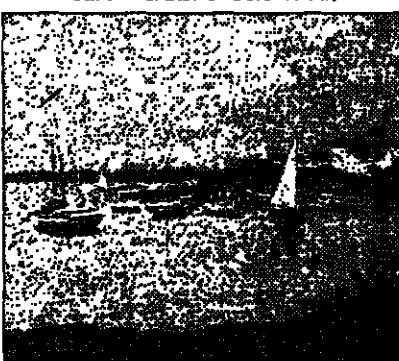
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COLLECTING

Art to warm a winter evening

Autumn in Manhattan brings the chill and the International fair writes Paul Jeromack

By mid-October, Manhattan has settled in for the long winter. The air usually has a bracing snap and Manhattan society is looking forward to welcoming the winter season in the way it knows best - by buying something.

The stage is set for the sixth annual International Fine Art and Antiques Fair, which holds its gala opening in the Park Avenue Armory, in Manhattan, on Thursday, October 13. The show runs until Thursday, October 20.

The International is organised by Brian and Anna Haughton, London ceramic specialists turned entrepreneurs. It made its debut at a time when its biggest rival, the long-established Winter Antiques Show, was going through an acrimonious time, involving accusations of mismanagement by its former chairman Mario Busia, widespread defections of established dealers and, most important, revelations that several items featured by its leading exhibitors had been, in the words of one discreet colleague, "creatively refinished and embellished".

The Winter Antiques Show was shaken by the International's strict vetting policies. These determined authenticity and the amount of restoration of every item proposed. The International became a venue where the prospective buyer could relax and buy with confidence.

"We won't have imitations in," said Anna Haughton. "For instance, there are perfectly good 19th century ceramics that are exact copies of popular 18th century models. Even though many of these were legitimately produced, and the dealer may represent them as 18th century, they would not be permitted at the International show because they are straight copies. There is no problem with 'revivalist' pieces of a later century; they are clearly of their time."

Still, the vetting procedure is not without its problems. At the Haughtons' first Fine Art Fair in New York last spring, several exhibitors complained that the vetting committee (made up mostly of other exhibitors) occasionally placed personal rivalry above aesthetic considerations, expelling items that should have been included, and vice-versa.

It can be difficult to get objective vetters, as several curators and restorers from the



'Cavaliers and ladies' by Antoine Palamedez, 1634, will be shown at the International Fine Arts and Antique Dealers show, in New York

Metropolitan Museum were forbidden to participate. Nevertheless, Anna Haughton said: "Each year, we have more and more outside vetters. This year we have 90, and 30 of them are museum curators."

When asked who they were, she demurred, saying: "there are always some people who don't want to be listed." Although a list was promised, Haughton backtracked a few hours later, telling me: "We have decided not to publish a list of vetters this year."

The most important painting ever featured at the International Show was Bernardo Bellotto's 'Fortress of Königstein,' featured in Bruno Meissner's booth in 1992. Its exhibition there was instrumental in its subsequent sale (for approximately \$6m) to the National Gallery of Art.

While there are still a good

number of picture and drawing dealers exhibiting (Richard Green returns with his impressionists and Old Masters, featuring works by Canaletto and Camille Pissarro, and first-timer Jill Newhouse with Old Master and nineteenth century drawings including an early Turner Watercolour of Florence and Degas' study of Julia Bebell), the International has developed into more of an "object" fair.

Unlike European collectors, Americans have not yet warmed to the idea of buying Old Masters at fairs, and it remains to be seen whether the Haughtons' spring Fine Art fair can convince them otherwise.

While the International has no stated yearly theme, this year a several exhibitors feature Oriental sculpture and Orientalist-inspired European

and American works of art. In the former category, veteran New York dealer Bob Ellsworth has a rare Chinese bronze chariot group consisting of two horses, a chariot driver from the Han dynasty. Michael Goedhuis, of London, will show a similarly large number of monumental Chinese works in bronze and iron, including a large 13th-century Iron Head of Lohan and a 17th-century bronze Buddhist Lion, originally a guard for a private shrine, one of a handful of pieces signed by the caster Shumsei.

In addition to many works of modern and ancient European art, the Belgian dealer Axel Vervoorde also features Oriental sculpture, including a large Chinese Song dynasty Seated Lohan of lacquered wood. Doris Wiener offers Indian and Cambodian sculpture; she is

showing a life-size 11th century Khmer sandstone figure of Shiva, a notable 10th century Ganesha and Elephant-headed Deity known as a 'Remover of Obstacles and Bestower of Worldly Success' from Java. The Chinese Porcelain Company has a 19th high Khmer bust of a 10-armed Goddess Durga from c. 960-965. Earle D. Vandekar of Knightsbridge will show a decorative pair of 18th-century Chinese bronze Lion-dogs.

Partridge Fine Arts offers oriental furniture including a red-lacquered Chinoiserie bureau-cabinet (c 1720) attributed to Master Martin Schnell who worked in the service of Emperor Augustus the Strong at Dresden. Frederick P. Victoria features two elaborate Chinoiserie painted over-doors, probably made for the Villa La Favorita, and a Chinoiserie folly created by the King of Naples after he took up residence in Sicily at the end of the 18th century.

Orientalism of a different sort is featured by Margot Johnson, who specialises in the American Aesthetic-movement

specialist. She has a delicate Japonese inlaid table by LeJambre of Philadelphia c 1880, (in addition to several fine pieces of furniture by Herter Brothers). David Pickup (one of the most popular exhibitors), offers a British Aesthetic-movement brass canopy bed from around 1872 complete with its original pink-and-cream embroidered cover and drapes.

Most of the dealers are enthusiastic about their prospects. Says Michael Goedhuis: "People are looking forward to it - it is the first item on the social agenda this autumn. They have not been spending very freely in the past three or four years, but there is a lot of anticipation this year."

"It is hard to get a handle on what's going on in the art market today, though. You cannot pan out the same old boring rubbish about people being 'only interested in the top line'. But this show is very good. Only Biennale in Paris makes more money for its dealers, although the rest of Europe is fairly dead. The big market remains in America."

Fiac optimism prevails

Made homeless by the closure of Paris's Grand Palais, this year's 21st Fiac contemporary art fair is housed, until October 16, in accommodation supplied by culture minister Jacques Toubon - some 14,000 sq m of white tent on the Quai Branly, near the Eiffel Tower.

Slightly fewer galleries, 180 as compared to 188 last year, are taking part and the foreign

contingent has shrunk from 79 to 67 dealers, including seven British galleries, but only eight Americans as against 14 last year.

Even if the Fiac now comes second to the Basle Fair in June as Europe's top contemporary arts show, the tone this year is still optimistic.

Declared trading at last year's fair rose to FF150m (£18m) following an all-time low of FF100m in 1992 and

organisers hope that 150,000 visitors will pay FF150 each to crowd under the canvas over the coming week.

The recession has radically affected prices - as much as 50 per cent lower than during the boom years of the 1980s - and the art on show. Many dealers have abandoned the staid, big-name works, once reckoned a good bet in hard times, to invest in younger, low-priced artists and thus in genuine contemporary art.

To encourage this trend, this week's Fiac, instead of spotlighting galleries from a guest country as in previous years, is inaugurating a special section called "nouvelles tendances", housing 35 galleries showing works by young artists. Paintings by Paul Pegk, the British artist, are being shown by the Toulouse gallery of Eric Dupont, who is also exhibiting Hyun Soo Choi, the Korean, and the young Frenchman Musee Khombol. The Marc Jancou Gallery from London's Foley Street, a Fiac newcomer, is exhibiting pieces by British artists Jane Simpson, Martin Creed and Jasper Lester.

Several major galleries, such as Paris's Durand-Dessert and Alain Blondel are making do with a selection of works by their stable of artists but almost 70 other stands are staging shows by just one or a handful of people: Paris's Galerie Labumiere, for example, is exhibiting 10 works by

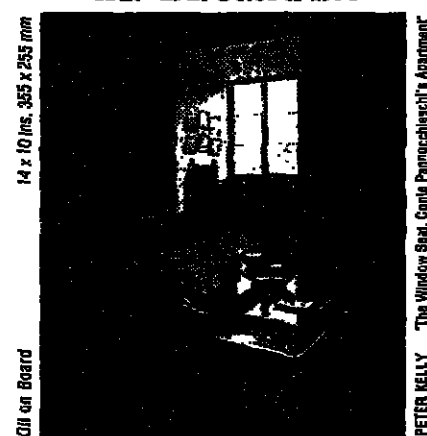
Auguste Herbin, covering the artist's very varied career from 1917-1959, at prices from FF500,000 to FF1.8m (£60,000-£220,000).

Fellow Parisians Artcurial are devoting their display to the work of five women artists, Sonia Delaunay, Natalia Dumitresco, Germaine Richier, Margaretha Farmer and the Danish Sonja Ferlov.

Nicholas Powell

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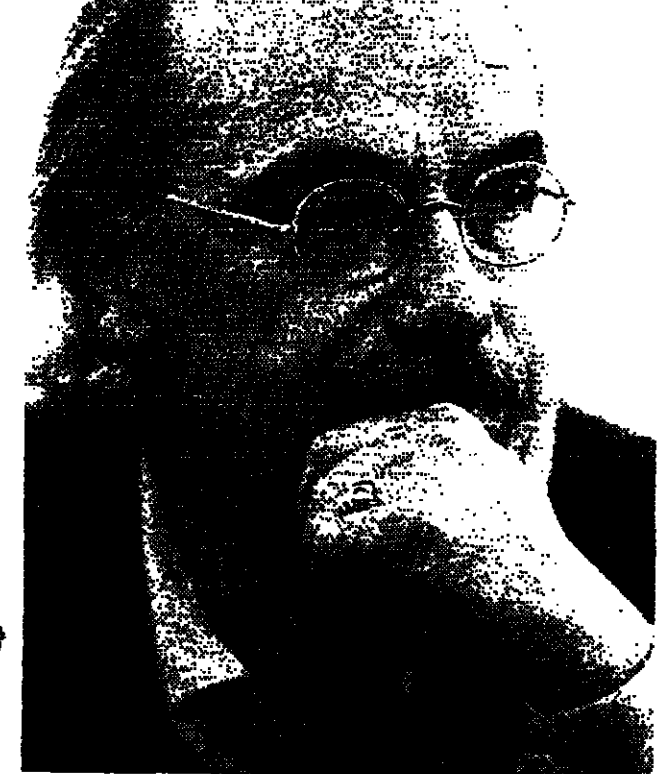
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JAPAN IN CORNWALL 1994

ARTS

A rare bird in the world of opera



Wernicke: 'I like singers to join me on a voyage of discovery'

Every work of art contains an enigma, and if there is no enigma, it is kitsch. These words trip off Herbert Wernicke's tongue as if they were the stuff of everyday conversation. Wernicke must be one of the most matter-of-fact personalities on the continental opera scene today – but when he gets to work, he is also one of the most imaginative. Few directors are better able to balance the world of ideas with the demands of practical theatre.

Wernicke's production of Wagner's *Ring* opens at the Frankfurt Opera next Tuesday. First staged at Brussels in 1991, it was widely admired for its clarity, immediacy and magical effects. Using a single set and carefully-selected visual leitmotifs, it has the unity of style which characterises all Wernicke's work. With the same conductor, Sylvain Cambreling, and much the same cast, Frankfurt is lucky to have inherited it.

Wernicke, 48, is a rare bird among German opera producers: he can read music and he designs all his own productions. The son of a painter and picture-restorer, he began his career as a stage designer in the early 1970s. After directing a handful of plays, he produced his first opera in 1978, and has never looked back.

He spent much of the 1980s earning a reputation for contemporary settings of baroque and romantic operas. The Brussels *Ring* was his international breakthrough, opening the way for Boris Godunov at this year's Easter and summer festivals at Salzburg. He has also shown a lighter side in his uproarious operetta productions.

Forthcoming projects include the world premiere of Theo Loevendie's new opera about the Dutch wartime resistance (at the 1995 Holland Festival), *Der Rosenkavalier* for Salzburg next summer, Schoenberg's *Moses und Aron* for the Châtelet in Paris and *Les épreuves siciliennes* at the Vienna State Opera. He would love to direct in Britain, but has never been invited.

With his narrow-rimmed spectacles, casual dress and dry humour, Wernicke is the liberal German intellectual *par excellence* – but where theatre is concerned, he is never less than practical. The walls of his atelier in Basel are plastered with architectural plans giving the exact stage measurements of theatres he will be working in, and his design-models have a draughtsman's precision. "He's not the kind of director who chooses a concept and tries to make the opera fit", says a long-standing

colleague. "There are no counter-productive ideas. That stems from the fact that he began as a designer. He has a clear idea of how he wants each work to look – and that usually means simple and powerful."

His controversial Munich production of *Der fliegende Holländer*, for

Andrew Clark talks to Herbert Wernicke, a German producer who reads music and designs all his own productions

example, was set entirely within the walls of a bourgeois living room, like a nightmare in familiar surroundings. His Basel *Così fan tutte* resembled a Club Mediterranean holiday island, where young love was superficial, blind and promiscuous. His Salzburg *Boris*, in modern dress, used a stark, abstract framework to make a bleak statement about the exercise of power.

All Wernicke's work has a political viewpoint – or, in his own words, "a socially critical message. You have to

find new ways of interpreting old pieces, of making them believable and relevant to society today. That doesn't mean a singer should never stand still to sing an aria. Opera is a law unto itself – it exists in a different time. You have to have the courage to say: you, the singer, must sit and think about your situation. That is your reality. As long as you're saying something about people and not about stage conventions, it has its own legitimacy."

Stage conventions are Wernicke's *bête noir*. Social conventions, on the other hand, are the lifeblood of opera, giving Wernicke the key to works as diverse as *Die Fledermaus*, *Der Rosenkavalier* and *Carmen*. "You have to show these conventions intelligently. I'm not a Brechtian – I don't believe in pointing the finger. But you must make clear why you're doing the piece. It's a permanent conflict: you want to stretch them to their limits, but at the same time you have to make people think."

So he has no intention of resorting to Spanish clichés when he stages *Carmen* in Basel next month. There will be no flamenco costumes, no matadors (except for Escamillo) – none of the fictional, folkloric Seville most people have been taught to expect by big-house productions. In

Wernicke's eyes, Bizet's masterpiece is a tragic entertainment in the opera-comique tradition, with spoken dialogue and a reduced orchestra.

Carmen, he says, is not a pouting sex-bomb, but "an ideal which can never be reached in bourgeois society – the representation of absolute freedom. That's what fascinates Don José. She stands outside society, she is a threat to petit-bourgeois values. She has to be flushed out of the system, because she has something no one else has. As in *Don Giovanni*, society learns nothing – it breathes a sigh of relief when the 'evil' non-conformist has been put away."

Wernicke's ideal interpreter is someone who has never sung the role – or at least has no preconceptions. "I like singers to be curious. It doesn't matter if they are good or bad actors – as long as they are willing to join me on a voyage of discovery. I want to stretch them to their limits, so that they make it as believable as they can. I don't demand the impossible, but if a singer senses he or she can do something which was previously beyond their capabilities, I've achieved something. With some it comes very quickly, with others over a period of weeks, and with a few – never. A beautiful voice on its own is never enough for the theatre."

Manchester's Modernist comes to light

William Packer reviews Karl Hagedorn, Derek Jarman and Cindy Sherman

The Whitworth Art Gallery of Manchester University has a reputation for imaginative temporary exhibitions that take risks, or look again at forgotten artists. Two such are running at the moment.

Karl Hagedorn was born in Freiberg in Germany in 1889, but his antecedents remain a mystery, albeit a romantic mystery. He was supposedly an illegitimate son of Kaiser Wilhelm II – Hagedorn means blackthorn, a name often taken to indicate the royal-bend sinister in Germany. Certainly the several self-portraits in this exhibition, in youth and old-age, in their particular likeness to Kaiser Bill, do nothing to confound such speculation.

He came to England in the mid-1920s, settling in Manchester where he studied under Adolphe Valette, who was also Lowry's teacher. He was naturalised in 1914, was called up in 1916 and served out the war in Flanders with the Middlesex Regiment. He left Manchester in the 1920s for London, where he was active in the circle of the Royal Society of British Artists, which included Minton and Carel Weight. He also taught for many years at Epsom School of Art, so he was not exactly unknown to the London art world.

Only after his death in 1969, however, did the early work come to light, on which this exhibition's claim for his being "Manchester's first modernist" rests. For the tragedy of his middle years was the death, in 1928, of Anne, his only child. In his grief he abandoned his modernist ways and asked Nellie, his wife, to destroy all his old work. Instead she hid it.

So it is we discover once more the lively work of a committed young artist, already well-travelled in the years before 1914, and familiar with such as Derain, Matisse – whom he visited – and Picasso. He was also knew the Vorticists, Lewis, Bomberg and their friends, and the Bloomsbury avant garde of Fry and Grant and Bell.

If what he did does not now exactly shatter our perception of modernism in its great days, it was quite enough to stir up a little local controversy when he showed with the Manchester Society of Modern Painters in the autumn of 1913. "Mr. Hagedorn's 'rhythmical expressions', said the *Manchester Evening News*, "include one which happens to be a sea-green man – Robespierre was pink to him – another seems like a kitchen dresser after an earthquake..." Plus ça

change... It is an intriguing and charming revival.

The late Derek Jarman's last works, *Evil Queen*, are hardly charming, but they are intriguing, and given the circumstances in which they were made, even moving. Through his last decline, unable to paint himself, Jarman directed an assistant in achieving these manic, expressionist swirls and vortices of pigment and colour. They are truly desperate things, for the palpable hurt and anger they express, powerful enough even without the final fierce inscriptions, scoured out of the paint, that were Jarman's only direct contribution to the work. *Ouch*; *Dead Sexy*; *Dixie Bitch*; *Scream*; *Do Lalley*; *Ataxia* (*Aids is Fun*) – the cries grow weaker, the surfaces thinner, as Jarman himself fades away.

This is not great art. Jarman began and always claimed to be a painter, but the truth is that he made his greater contribution through his films. His painting, rather, was ever impulsive, opportunistic, unsustained, and it is only the special pleading of his particular condition that would make it more. That is not to say, however, that this sad exhibition is not a most poignant testament to our times.

Finally, a brief mention of Cindy Sherman, who is herself the subject of her remarkable photographic works. Yet it is never self-conscious or self-celebratory, for she takes on the impersonality of the true actor. She has shown frequently in London, but never before in the country at large. The show at the Manchester City Art Galleries offers a concise summary of her career, from the Untitled Film Stills of the late 1970s, through the ever-larger colour images of the '80s to the disturbingly gynaeological sex images, with their dismembered dolls and disembodied masks, of the '90s. She is a satirist and a surrealist of real power.

Manchester's First Modernist – Karl Hagedorn: Whitworth Art Gallery, Manchester University, Oxford Road, Manchester, until November 26, then to Christ Church, London. *Evil Queen* – Derek Jarman's Last Paintings: in association with Richard Salmon, Boddingtons and Granada Television. *Possession* – Cindy Sherman: Manchester City Art Galleries, Princess Street, Manchester, until November 6; in association with Boddingtons.



Self-Portrait with Pipe, 1915, by Karl Hagedorn – who was supposedly the illegitimate son of Kaiser Wilhelm II

Drama decidedly off the mark

The story is told of a little girl watching the state opening of parliament who pointed out the Lord Chamberlain in all his finery and loudly enquired, "daddy, what's that man for?" Its useful question to pose of plays every so often, and the Stray Dog company's production of David Ashton's *The Mark* founders upon it.

Ashton (author of Bush Theatre Productions *A Bright Light Shining* and *The Chinese Wolf*) chooses to dignify his three-act by allotting a separate title to each 30 minute act and calling the result a trilogy, but the puffery of such a move is implausible. The scenes tell in reverse chronology of a simple-minded lad, violently sensitive about his facial birthmark which gives the play its title, who murders his brother for not being the golden boy he

envisaged: first we see the increasingly cracked Johnny by his brother's graveside on his release from prison, then the parents keeping funeral vigils by the body several years earlier, and finally the real relationship of the teenage brothers.

Of the three scenes, only the last contains any inherent element of stage drama; the others, burdened as they are almost entirely with story telling and recollections rather than any direct interaction between characters, suggest that the play may have started its life as one of Ashton's numerous radio works.

Rather than attempting to transcend these limitations by playing to the emotions and suggested complexities which the script does contain, Daniel Slater's lumpy direction tries to create drama where there is

none: Neil McKinnon's Johnny, with his brother's grave in front of him, addresses alternate sections of the audience as his dead sibling, for no apparent reason; and Anny Tobin, as the grieving mother, Theresa, is pushed into realms of archetype which the character cannot sustain. Only Jake D'Arcy has the courage entirely to refuse such reductive direction and play Theresa's husband, Willie, in the more natural register in which he is written; D'Arcy's performance is at odds with those around him, but an admirable relief in itself.

Only in the last half hour are McKinnon and Shamus Gubbins as idolised brother Tommy allowed to attain what should be the general tone of the play – an awkward intimacy in which their empathy is undermined by moments of

misunderstanding and outright cruelty. However, both in terms of writing and performance it is too little, too late.

This brotherly relationship is the foundation for a story, but remains a long way from explicating all that we have seen before; the actors' performances elicit only frustration

at having sat through such simplistic over direction for the last hour. Stray Dog must do more to earn its meaty chunks.

Ian Shuttleworth

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BOOKS

A temperate look at the Tories

Alan Clark enjoys the reminiscences of a witty man doomed to rejection by the party leaders

Julian Critchley was in Parliament for a very long time. He watched the Tory Party change (the euphemism is "adapt") and did not much like what he saw. So for historians he is a valuable source. We enjoy the bonus of his literary style and his powers of observation: there (in 1962) is the prime minister "who would attend upon the 22 (Committee) with difficulty, nervously flinching his Brigade tie". But 20 years later it was "pull up our socks" and "we've got work to do."

As a diarist, an impressionist really, the author has this delightful light touch which, like a water-colour by Cézanne, is so delicate in its use of colour as to please the connoisseur but leave (perhaps) the philistine puzzled or impatient. (This was also true of much of the way Critchley commented and conducted himself in Parliament, I

may say.) Take this introduction to a visit to Harold Macmillan: "... Birch Grove, a modern country house the back of which abuts on the Bluebell Line, a preserved steam railway often to be glimpsed on television."

Future students will be able to write a whole doctoral thesis on Critchley's economy of language, and the gentle tone of mockery which pervades his treatment of even the most contentious topics.

Here he is on one of the "safest" bits of his own constituency: "Fleet, a curiously dull early 20th-century planned town where retired Colonels and their ladies

hang like an army of bats in the mouth of some Cornish cave."

At one point the author falls foul of Lord Grimston, a nonentity who chaired the Carlton Club (foolishly and youthfully Critchley had entertained Jo Grimond to lunch there). Critchley was summoned to apologise and an appointment was agreed. A Lucky Jim sequence followed. Pouring rain, no taxis, no buses, no (after some hour and a half) Critchley. A cross note from Grimston awaited him when finally he turned up. But the episode is neither enlarged on nor subsequently referred to until much later. Critchley (at that time pretty

A BAG OF BOILED SWEETS
by Julian Critchley
Faber £17.50, 256 pages

broke, no longer an MP and now writing about wine) brings into the club as a guest Cyril Ray, a tiny left-wing twerp who also postured as a wine buff: "...luckily there was no sign of Lord Grimston".

Rancour, that chemical inseparable from the human condition, especially when in introspective "mode", is almost entirely absent. Only two colleagues are categorised as "nasty bits of work". George

Wigg, who undoubtedly was one, and the hapless Robin Maxwell-Hyslop (whom I always found eccentric and combative but, nonetheless "a good sort"). Michael Heseltine, whom poor Critchley was deluded into thinking of as his "best friend" (there is a revealing description of Critchley being slowly frozen out from both the house which they shared and the job to which Heseltine had appointed him) is confirmed as callous and single-minded but (my interpretation) so obsessively egocentric that even the Tory Party, when it came down to it, would do anything to avoid having

him as leader.

There is a profusion of anecdote. Some, many, we have heard before, but they continue to give pleasure being literally Homeric. They have entered into myth, and enjoy continuing and adaptive embellishment.

One omitted, and worth recounting because it may illuminate his "difficult" relationship with the then prime minister, is from a dinner held in 1988. There is a photograph in the book which the author has pleasingly and characteristically captioned "the remnants of the 1959 intake ('quite... the worst of my experience' - RA Butler).

The woman in the middle is Mrs Thatcher. At the conclusion of this meal Julian had the trickiest task of introducing the prime minister. "Margaret, what can I say about you that has not been said already?"

Acknowledging this, in that special sugary tone which she reserved for those whom she disliked, the prime minister opened "Julian, what can I say about you which you haven't said already?"

And I suppose that much of this delightful book has, by the author himself, been "said already." But it is lovely to have it all under one cover: the testament of a clever, witty man who loved politics but was doomed to rejection. Critchley mourns the transition of his party from Knights of the Shires to Estate Agents and Motor Dealers. But reading him carefully will reveal that the author was too fastidious for acceptance by either.

Identity crisis in the US

The best way to find out what people are thinking is to go out and ask them. Haynes Johnson, a journalist on the Washington Post, has applied this simple maxim - too often forgotten by those who work in the metropolis - to build up his portrait of an America bewildered by decline and wracked by pre-millennial tensions.

His wide-angle lens captures a middle class defending past gains behind security gates while city services and schools collapse, medical costs soar, crime, guns and drugs proliferate and jobs are lost to overseas competition and post-Cold War defence cuts.

The citizens of the US are suffering an identity crisis, Johnson finds, in a society where race and gender are overwhelming the sense of American-ness. "At present the forces that divide America are greater than those that unite us." Yet, he concludes, he is not writing the obituary of the American Dream, only describing an interlude in its reclamation.

Their testimony suggests that Americans are no longer seeking scapegoats for their ills. They are finally waking up to the fact that they have been spoiled by post-war prosperity and must now take a cut in living standards. They are

DIVIDED WE FALL: GAMBLING WITH HISTORY IN THE NINETIES

by Haynes Johnson
W.W. Norton £19.95, 431 pages

waking up to the consequences of their tax-strike and credit binge while the budget deficit exploded; to their strike against a federal government they had been taught to despise as wasteful and malign; and to their regional treatment of their own presidents.

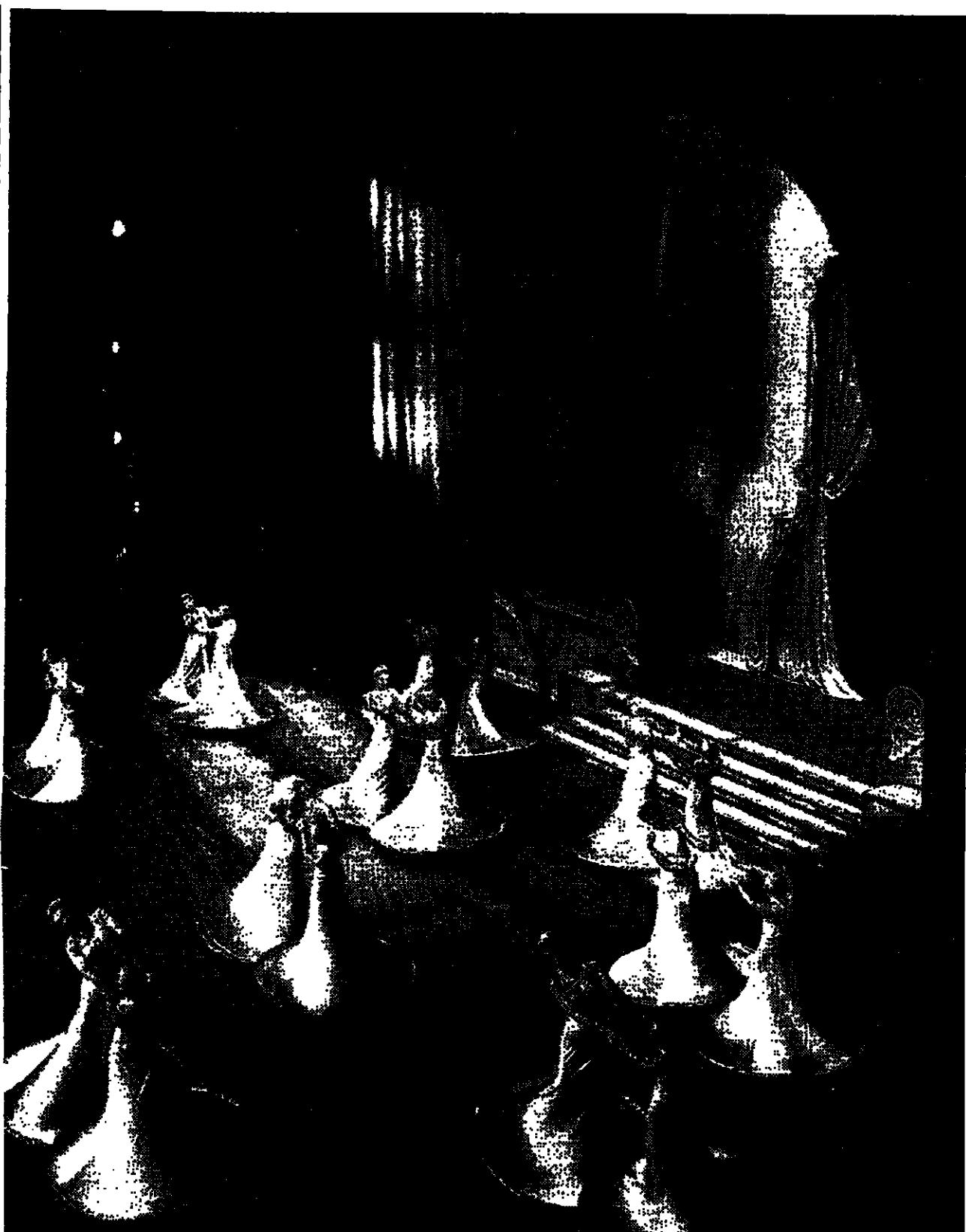
Johnson details the early pratfalls of Bill Clinton's administration but seems to find this president very much in tune with middle America, with ordinary folk who have been chastened by the gun-ho market worship of Ronald Reagan and his business backers and who now yearn for old community values. They talk less about their rights, more about their duties.

A judge in Oakland, California, says of the homeless: "We used to recognise that we have a moral responsibility to these people. Now the idea seems to be, if I can make it, they can make it." A woman welfare officer in Maine who resigned in protest at cuts says: "I've always seen myself as a public servant, and now I don't have that any more, so I'm not sure what I am. That brings tears to my eyes."

Americans, the rest of us, may derive morbid pleasure from wallowing in their own problems and no doubt Johnson, in this sequel to his book on the 1980, *Sleepwalking Through History*, found it all too easy to gather the testimony he wanted. Yet his interviewees' comments are too striking, their message too persistent to be dismissed as mere grumbling.

There is a danger of repetitiveness as well as bias in this form of instantaneous history. But the author's knowledge of the political and economic story, his command of supporting facts and the doggedness of his quest add up to a convincing and by no means uniformly depressing snapshot of the American mood. If these citizens are typical, Americans have learned to expect what it is they need, not merely what they want. Perhaps they will now persuade Congress to banish the lobbyist and get on with the job of providing it.

Christian Tyler



The Silver Hoop Number at the Roxy Theater, New York, photographed by Jack Partridge in 1938 - from "The Fugitive Gesture: Masterpieces of Dance Photography", from classical ballet and can-can to the Lindy Hop, by William A. Ewing (Thames and Hudson £16.95 paperback, 240 pages)

Leviathan of the 17th century

A.C. Grayling hails the writings of Hobbes; philosopher, scientist - and chrysanthemum

A Chinese saying tells us that "orchids fear the Taylor-bird's song, but chrysanthemums survive autumn's frosts", which means that early developers fade early whereas late developers go from strength to strength. This is an optimistic saying; there is hope for us all yet.

Hobbes was a chrysanthemum. At the age of 46 he fell in love with geometry, and suddenly blossomed into an intellectual giant; despite Parkinson's disease later, and perhaps because he sang to himself every night as a way of keeping fit (he said it cleared his lungs), he lived to the grand age of 92, producing scientific, mathematical and philosophical works which had a profound influence upon the birth of modern times.

These two volumes constitute the first ever collection of Hobbes's known correspondence, and their publication is therefore an important literary

and philosophical event. There are letters here between Hobbes and - among many others - Pierre Gassendi, John Aubrey, Marin Mersenne, Gottfried Leibniz, Cosimo de Medici, and King Charles II, whose mathematics tutor Hobbes had been. Almost half have not previously been published. They open a window onto many aspects of the 17th-century world; anyone interested in history, literature, politics, philosophy and the history of science will find them utterly absorbing.

The editor of these handsome volumes is a man whom Hobbes and his correspondents would have recognised as someone of their own stamp: a fine scholar who nevertheless

engages with the world outside the academy. Noel Malcolm, political correspondent on the Daily Telegraph and sometime Fellow of Gonville and Caius College, Cambridge, has done an outstanding job of translating all the Latin, Greek, French and Italian in the correspondence, providing excellent introductory notices of Hobbes's correspondents. A reading of the letters and this elegantly written apparatus amounts to an education in the history of 17th-century thought.

Hobbes's most famous work is unquestionably the *Leviathan*, his great treatise of political philosophy. This work, together with the scientific and psychological theories he

THE CORRESPONDENCE OF THOMAS HOBBES: VOLUMES I AND II
edited by Noel Malcolm
Oxford University Press £120, 1008 pages

developed in connection with it, made him celebrated throughout continental Europe, but a figure of obloquy in his own country - partly because of the virulent anti-clericalism of his ideas, which made him seem an atheist, but also because the conclusion of his political theory is an uncomfortable one; namely, that the best form of govern-

ment is absolute rule by a single sovereign power.

Hobbes based this theory on his view of human nature, of which he took a deeply pessimistic view. Humans, he said, are greedy, selfish and distrustful, and will prey upon one another unless they are restrained by fear of a coercive power. Civil society comes into existence to give people protection against each other; each individual yields up, by consent, some of his liberty in return for security. But the logical terminus of this, Hobbes argued, is that full security is best achieved if there is a single absolute sovereign exercising power over all. The sovereign power might be a collective body, like parlia-

ment, or a monarch. Hobbes preferred the latter, on the grounds that a monarch will not be weakened by internal divisions, as might happen in a collective body.

By postulating human nature rather than religion or tradition as the ground of civil society, Hobbes thought he had moved political theory into the realms of science. His ideas provoked strong resistance in many quarters, but his methods proved influential; his reliance on reason and experience helped to free subsequent philosophy from its thrall to scholasticism and theology.

It is one of the oddities of national temperament that whereas Hobbes's continental friends - many of whom, like

Gassendi, were priests - were tolerant towards his attacks on religion, in England his views were regarded with horror. In 1686, after the plague and Fire of London, people began looking for reasons why God was punishing England, and a flurry of heretic-hunting began. A parliamentary committee considered a bill "against Atheisme Blasphemy or Profaneness... And in particular... the booke of Mr Hobbes called the Leviathan". Hobbes was saved from this threat, probably by Charles II, who was fond of him; but his reputation as a maverick remained.

Interest in Hobbes has been steadily reviving in recent years, and Malcolm's magnificent edition of his correspondence will help to spur that process. No-one has to agree with Hobbes to appreciate his achievement; failure to understand this fact is one of the reasons why England is often so slow to applaud its own.

certain arrival of a deer. However, much as one can delight in these scenes, the reader is left surprisingly unengaged by characters and events, a lack of engagement that Mallet himself seems to share. He displays an icy detachment from his creations. He may be God-like but he is distinctly unaffectionate. The end result is a novel that is easy to respect but very difficult to love.

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Seeking myth in dirty realist territory

ble piece and there is no single protagonist, but gradually we get to know the characters: Dick, who owns the local hardware store and is going slowly, tortuously bankrupt; Henry, a newcomer to the village whose head is full of new man, New Age confusion; Maris, a youthful, sexual free spirit who comes to a nasty if inevitably ambiguous end. And there is a full supporting cast that includes wife-beaters, gun enthusiasts, hunters and storytellers.

The novel is set in an unsp-

cialised, though strangely dated and nostalgic present. Characters have phones and pick-up trucks for instance, but if there are computers or televisions or fax machines then nobody talks about them. Nobody goes to the movies or listens to popular music, which is a shame in some ways because these people would learn a lot about themselves from watching, say, *The Last Picture Show* or from listening to almost anything by Bruce Springsteen.

There are times when we appear to be in standard dirty

realist territory, but other times Mallet seems to be yearning after something mythic rather than realist. We have little sense of an outer

THE VILLAGE
by David Mallet
Faber £14.99, 238 pages

world. We do not know who the president is or what stage the cold war is at, but Mallet's point would no doubt be that his characters' lives are little affected by such niceties, that

they exist in a more elemental region. But Mallet does not quite achieve that mythic dimension, and perhaps that is largely because he wants it so badly. The strain sometimes shows.

Of course, Mallet's dialogue is a wonderfully ornate and artificial approximation of real speech (I was reminded of Ivy Compton-Burnett), and the detailed precision of his prose can sometimes sound like stage directions, but this is not some dilettantish piece by a successful Broadway and Hol-

lywood writer flexing his muscles in a different genre. At a time when so many novels read like raw material for the movies, Mallet has found exactly the right form for what he has to say.

The best parts of the book are a series of virtuoso small scale set-pieces: a man chops wood; the same man gets lost while trying to ski home through the snow; a State Trooper has to tell a father that his son is dead; a hunter stands all day in one spot waiting for the eventual and

SPORT / MOTORING

Motoring

Future takes the stand, but will it hit the road?

Stuart Marshall looks at all the prototypes, dotty and practical, at the Paris motor show

What is the star of the Paris Mondial de l'Automobile that opened this week? Is it an exciting but dotty Renault Espace incorporating a lot of Formula 1 racing car parts and claimed to be the world's fastest four-seater? Or is it Xanae, a concept car described by its builder, Citroën, as "a house on wheels"?

The 186 mph/300 kph Espace F1 has a mid-mounted Renault V10 engine from the 1992 and 1993 World Championship winners, a semi-automatic six-speed gearbox and Williams racing car rear suspension.

Renault says, tongue in cheek, that this first F1 four-seater offers a "never to be forgotten motoring sensation". I am sure it does on a race track. One hopes no-one is ever tempted to stretch its legs on a public road.

Unlike so many concept cars which burst upon the motor

show scene like comets and then disappear just as quickly, Citroën's Xanae (you say Zan-ay-eh) is a practical running prototype. It has the same chassis platform, 2.0-litre, 16-valve petrol engine and automatic transmission as a Citroën Xantia. The suspension incorporates the active roll limitation system that impressed me so much when I tried it a few weeks ago (this column, 24 September).

If the mechanicals are more conventional than state of the art, the body bristles with bright ideas. Although at 4.63m (almost 14 ft) overall the Xanae is shorter than a Xantia and only a little longer than a ZX, up to five people find it spectacularly roomy inside.

The floor is completely flat and the body pillars. When a front door and rear-hinged back door are opened, nothing obstructs people getting in and out. The minor controls are in a height-adjustable cluster on the steering column.

A windscreen as steeply



A Citroën Xanae concept car: a house on wheels, between multi-purpose vehicle and family saloon.

slanted as that of a French TGV train extends into a transparent roof panel. Xanae would not, as one might suppose, become insufferably hot on a sunny day because the glass is heat reflective and air conditioning is standard.

Citroën side-steps questions on whether Xanae will evolve into a production vehicle, saying it was created to test public reaction to new vehicle concepts.

Elsewhere in the show there are four MPVs (multi-purpose vehicles), jointly developed

with Fiat and made by PSA (Peugeot-Citroën Group). These MPVs are sold, badged as Citroëns, Fiats, Peugeots and Lancias, as "monobox" alternatives to normal large estate cars.

In three or four years, I could see a car based on Xanae

fitting nicely into the PSA product range below these MPVs and above the Citroën Xantia and Peugeot 306.

The only obvious drawback to Xanae is an intimidatingly high sill that would put the roomy but deep boot out of bounds to anyone who has a

bad back - or is afraid of getting one.

Ford is also showing a concept car based on an up to seven-seat MPV it has jointly developed with Volkswagen and which goes on sale next Spring.

Zero emission vehicles are due to appear soon in Californian showrooms to satisfy environmental protection legislation. Things have not gone that far in Europe. But even here the battery-electric car is moving from the impractical novelty stage into small-scale production. It will, though, be some time before they are sold in dealerships alongside petrol and diesel cars.

At the Paris show, Peugeot has unveiled Ion, a 3.32 metre (10.91 inch) long, four-seat battery-electric concept it thinks might be the ideal urban run-about of AD 2000. Like the Peugeot 106 and Citroën AX electric cars now being evaluated on a large scale in France, Ion has a nickel-cadmium battery pack giving it a range of up to 150 km (93 miles). Peugeot says Ion is only an exploratory project, but concedes that some of its interior and exterior styling ideas will be incorporated in a

future town car. Britons may get a chance of seeing Ion at our own International Motor Show in Birmingham later this month.

Among cars being unveiled to the public at Paris are a stunning Alfa Romeo GTV Spider (successor to the car immortalised by Dustin Hoffman in *The Graduate*) and the new Jaguar XJ saloons and their high-off-the-ground, four-wheel driven counterparts, the luxurious new Range Rovers. Aston Martin has the first of its ravishing DB7s due to be delivered to a French buyer as the centerpiece of its stand.

Nissan and Honda are making a splash with their new QX 2.0-litre and 3.0-litre V6-engined executive saloons and Civic five-door hatchbacks respectively. Ford's odd looking Scorpio replacement is there, as are two desirable Porsches - a new 911 Carrera 4 with all-wheel drive and a rear-wheel drive 911 with gear selection for its Tiptronic transmission by thumb button on the steering wheel.

Mondial de l'Automobile at the Porte de Versailles exhibition complex is open until 16 October.

Cricket

In a giant's footsteps

Simon Hughes treads carefully as he follows Ian Botham down the road

What, people ask, is Ian Botham up to these days? There is a quick resumé. He is struggling around the west coast of Britain for a month raising funds for leukaemia research. He will let the blisters calm down for a week, then he is off to Australia and New Zealand to promote his book, *My Autobiography*, before appearing alongside Rolf Harris in pantomime at Wimbledon. He will play one of Baron Hardup's

men in *Cinderella*. Then he will change into his favourite jeans and T-shirt for a speaking tour of various countries with Allan Lamb. Then it will be summer again. "Basically there's not a spare day in the diary until about June," he said.

But then Botham would not be Botham without activity (his name has even been used as an acronym - viz "I was so angry I went totally Botham") and he needs people around him: on the cricket field, by the river bank, on the B-roads of

north Wales where I joined him last week. Even in the middle of the night he likes company.

Once when we were both playing for Durham we were staying in a Nottingham hotel. I was asleep in a single room - a luxury on county cricket's relentless circuit. At 2am the phone went.

"Hi Yozzer, it's Beefy. Fancy some Burgundy in my room?" "But it's the middle of the night," I complained.

"I'm in the next room," he replied. "If you don't turn up I'll kick your door in."

So I did as I was told, and sat bleary-eyed, sipping and nodding for an hour or so while he held court and demolished two bottles.

It has been said that Botham is either your best friend or your worst enemy, and that really is the gist of it. There are no grey areas - things are either black or white. Be loyal to him and he will be loyal to you, but tread on his toes and he will stamp on your head.

I was very careful of his feet last Wednesday. They are doing nearly 5 mph for 22 days as he winds his way round the British coast from Liverpool to Somerset and one frightening sore - about the size of a bath plug - had formed on his right heel. This is hardly surprising considering the speed he walks and the number of paces a day - about 35,000 by my calculation. (Two years ago Gary Lineker walked with him but could not keep up, footballers are, of course, only used to 90 minutes exercise at a time.)

During the course of this, his seventh trek round the towns and villages of his homeland, Botham completed 3,000 miles and passed the 53m figure for suns raised on behalf of leukaemia research. Why does he do it? Heroism, insanity and compassion might be a reasonable summation.

He loves the adulation from the public - the blue-rimmed old ladies, the housewives in bare feet, the classes of schoolchildren cheering at the side of the road - and they love to idolise him even if they fail to identify him. "Which one is he?" cried a woman in the doorway of a hairdresser's as the caravan of trucks and figures marched past.

Botham's support cast of dedicated volunteers ensures the success of the campaign. Two friends set up a stall to sell merchandise ahead of the party, while Gerry, his father-in-law, announces that "the greatest sportsman in the world will be passing in five

minutes" over a loudspeaker. Mike Gatting is accompanying Botham for two weeks and takes on the task of directing the traffic that builds up behind the entourage. At dinner that evening, he is fined 50p for impersonating a policeman.

Other helpers dish out food at regular intervals (there is no stopping even to sign autographs until the day's destination is reached). People with buckets rush about collecting loose change from pedestrians and motorists and a mobile bank follows behind to stash away the takings of about £9,000 a day.

Botham's wife, Kath, beavers away ensuring everything runs smoothly. She is the only person who really knows him; his one true, totally forgiving friend.

Over-zealous women almost swoon as he passes, others

As Botham passes women wait: 'Oooh, I'll give a fiver for a kiss'

rush up waiting "Oooh, I'll give a fiver for a kiss." Journalists who privately ridicule him dare not do so in print. If you make fun of his portly appearance or poor timekeeping, he returns it with interest. Any mockery is repelled with the usual "well, how many test wickets did you take then?" He enjoys the banter and he rarely comes second.

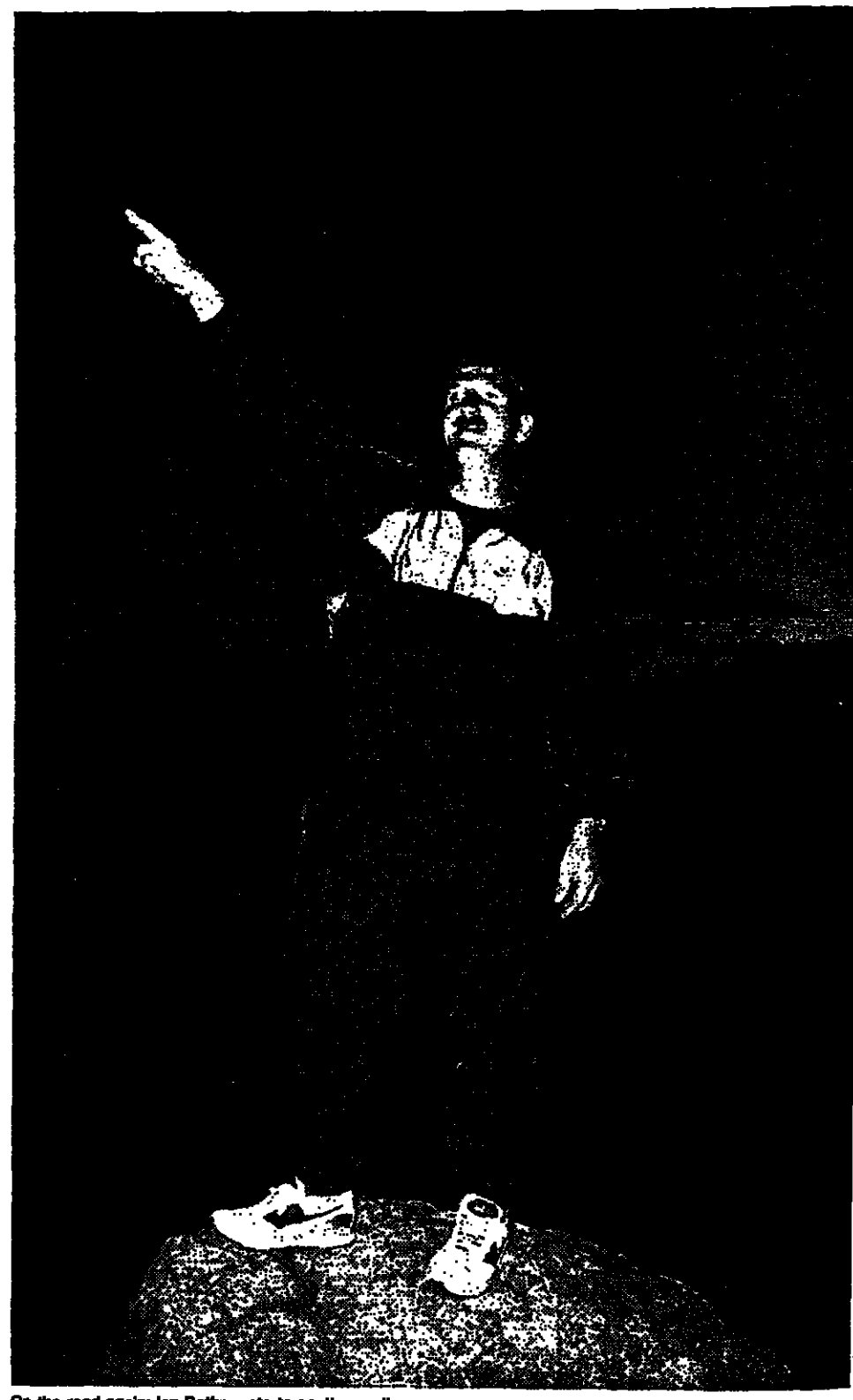
Underneath the incredible bulk, with calves the width of sewage pipes, there is genuine humility. On the walk he looks after ailing colleagues and makes good-natured sounds and motions whenever someone drops money in the bucket, no matter how much.

His autobiography, a best-seller, contains laborious accounts of test series with precious little insight - it is a feature of great sportsmen that they have poor recall of momentous achievements. But among the chaff there are touching, emotional passages about his family and friends, and the remorse he feels for everything he has thrown at his wife, mentally and physically. How has their marriage withstood those 20 years of trial and torment?

The answer is: it's all down to Kath, he admits.

The public support he receives on his travels underlines the fact that he is truly a people's hero. To them, his mistakes, his relatively humble background, his occasionally misdirected impulses make him seem more human, and therefore more likeable than a Nick Faldo or a Nigel Mansell.

Some elements of the press seem him in a different light, and write things that sometimes turn him purple with rage. At such times he would be wise to remember the words of Dr Johnson: "A fly in, may sting a stately horse and make him wince. But one is but an insect, the other a horse still."



On the road again: Ian Botham starts another walk

Howard Bayley

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Golf

Return of the missing links

nonstie, bordered by a whiskey distillery and a large council building, the golf course, but the great links at Carnoustie came to match their run-down location.

Things have improved at both courses. Birkdale took Stewart's advice, which is why the members have been putting on temporary greens for three years.

At Carnoustie, the council head-hunted the St Andrews greenkeeper, John Philip, and gave him money to spend and a free hand to improve matters. The result is that Carnoustie will host next year's Scottish Open and the Open, for the first time in 24 years, in 1999. The course is in such good condition that it puts a certain place down the road, the venue for this week's Dunhill Cup, to shame.

The members have even grown used to carrying a piece of Astroturf round with them from November to March. To protect the fairways, they place their ball on the artificial turf.

"There is just no growth up here in the winter," Earle Smith, the secretary, said. "A lot of members were unhappy at first but when they saw how good the fairways looked in March they did not mind so much."

Indeed the powers at St Andrews were sufficiently

The club consulted many experts. Arnold Palmer, the club's honorary president, even sent over his senior agronomist.

The cure involved peeling back the putting surface and digging out the black layer. With the greens out of action

Derek Lawrenson visits two great courses which fell on hard times

impressed to adopt a similar policy this winter on the Old Course, where the fairways are in a poor state.

The Open returns to Birkdale in 1998, when the players will find putting surfaces quite different to those they experienced in 1991.

"The problem was caused by the residue of incorrect top dressing materials used over a period of time," said secretary Norman Crewe. This had caused a black layer to form under the surface which choked off the roots and prevented any consistent growth.

anyway, the club took the opportunity to change their character as well.

Said Crewe: "Some of them were really nothing more than tough pieces of land at the end of the fairways. So now we've added some contours to some of the flatter ones to make it more aesthetically pleasing and obviously harder on which to hole putts."

The difference is instantly obvious on greens such as the par-three seventh, which used to be shaped like a saucer, so a player could invariably get away with a poorly struck

shot. Now the green is more like an upturned saucer and so sheds such a stroke rather than gathering it in.

The work on all 18 greens, at a cost of £270,000, was completed last winter and after one growing season they are still confident we've got it right," Crewe said.

"All the work practically cleaned us out. Now we have to build up the reserves again," Crewe said. There is little question the visitors who stayed away while the root construction work was being carried out will return. Green fees may be £50 but there are not many better places to play golf.

The same, of course, can be said of Carnoustie, although it would be nice if one of the many grand plans to do something about the setting finally came to fruition. Will someone not rid us of the abominable council building that stands where a clubhouse normally does and serves little purpose?

Unlike Birkdale, the club had no need of large-scale

alterations. If necessary Carnoustie can be stretched to 7,400 yards, although on a cold, bleak October day last week, it was more than daunting at 500 yards short of that.

At the turn of the last century the great players that a great links so often produces left Carnoustie and headed west for America and played a part in the development of the game there. Two brothers, Willie and Alex Smith, won the US Open while Stewart Maiden taught the game to Bobby Jones, who many believed to be the greatest of all players.

As we approach the end of this century, it is the turn of the great players to come back to Carnoustie. What a treat lies in store for those who, because of its years of enforced absence, have not have seen the course.

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Princess Di gazed into my eyes . . .

Peter Aspden describes his intimate encounters with members of the royal family

I crossed paths with the Princess of Wales a few weeks ago. It was in the middle of the King's Road, broad daylight, not a detective to be seen. I stared. I wish I could say, *pace* Pasternak and Gilbey, that I was aware of her "not in the gawping, let's assess-her-from-head-to-toe way, but with a protective sense of excitement and relief", but I would be lying; I gawped, I assessed, and my only sense of excited relief was that I wasn't her.

As she walked towards me on her way to take one of the little princes to a movie, a strange feeling came over me; I felt embarrassed. I found myself unable to carry on staring, it seemed indecent. While the cadish captain, on his first meeting, "drank in her effortless, her vibrant sheen and the way she cupped hands", I could only look down in furtive discomfort.

Instead of our eyes meeting, it became a contest of who could bore the deepest holes into the pavement. She probably won, having had more experience, but I gave it all I had. I cursed that I did not have my camera on me, but I could no more have sprung in front of her flashing lights in her face than taken an axe to her neck screaming "Vive la republic!"

The whole affair (it lasted all of 30 seconds, but, just in case, publishers, agents and great-nieces can get my number from the main FT switchboard) gave me a further, infinitesimal insight into life in the

grotesque glare of the royal spotlight. My shiny uncase had come from the wish to dissociate my rational judgment (she is an over-privileged, under-performing subject of no interest whatsoever) from my quasi-prurient curiosity (exactly how beautiful/thin/depressed is she?); it is, I believe, a battle that is fought daily in the minds of newspaper readers of all hues as they struggle to balance moral censoriousness with the frivolous lust for high-quality gossip.

I should have learned my lesson some years ago, when I became, for a mercifully short time and in the

most half-hearted of ways, a member of the royal rat-pack. I had been deputised by my local paper to cover Prince Edward's activities at Cambridge University. I reported on his first rugby match for his college ("a sinewy frame" I think I wrote), his first tutorial (they surprisingly declined to invite us in) and, eventually, his stage debut, in Arthur Miller's *The Crucible*.

After the performance (before a wonderfully bizarre mix of undergraduates and Fleet Street's instant Miller experts), I was rung by a local radio station; would I do a live interview? Inebriated by the

absurdity of the evening, I cheerfully agreed, and let rip. He was simply wonderful, I opined, prancing around in thigh-length leather boots, barking at underlings as if he had been born to do so, magnetically dominating the proceedings like a young Olivier.

My fine-spun and brutally sarcastic words were rammed down my throat the next morning when my "review" was broadcast nationally, on the hour, every hour, over the whole of the next morning; for my sumptuously ironic tone was lost completely. Friends called from all round the country, wondering why

I suddenly sounded like Barbara Cartland. I was humiliated.

The next time I encountered Edward was at a garden party, part of the usual scrum of malingering press-hounds scrutinising his every move. Suddenly, he bent down and picked up a small object. The cameras clicked as one. It was a royal rota press pass, the one you need to get within a whiff of these occasions. He smiled cruelly: "Someone has been rather careless!", twiddling the pass in his fingers while the pack laughed uneasily.

I looked downwards and froze. My lapel was naked. The pass was

mine. I was going to have to step forward, say sorry, bow in abject shame while every photographer swooped on the heaven-sent headline opportunity: "Please sir, can I have my pass back?", "Who's a silly boy, then?", "The Prince and the Plonker!" My life flashed before me. For the merest of seconds, I understood what it was like to be him. I, however, had an extra option open to me - I fled. No-one took my picture, no-one plastered me across every news-stand. I escaped, the moment was forgotten.

All these memories flashed by as I read *Princess in Love*, the story that was so beautiful, it had to be told, and as I read of James Gilbey's plight ("The world would judge him harshly in its ignorance, when all he was was a kind, weak man who had done his very best"), I wondered if anyone knew the meaning of shame any more.

Private View/Christian Tyler

Post-mortem on a bloody century

Wise old owl or vengeful vulture? From his perch at the top of the tree, Eric Hobsbawm, the eminent historian and life-long communist, has looked down on the dying carcass of our century and given his verdict.

He has broken a self-imposed rule in order to write the history of an era - his own - which started and ended symbolically at Sarajevo. In doing so, he is inviting not only the critical judgment of his peers but the derision of his political opponents.

Professor Hobsbawm may be a bird of ill omen but his book *Age of Extremes*, to be published in three weeks, cannot fail to make an impact at this anxious end of the millennium. It is a panoramic post-mortem of the "short" 20th century from the outbreak of the first world war to the death of communism, and a sequel to his trilogy covering the "long" 19th century from the French Revolution to 1914.

Hobsbawm himself was born a few months before Lenin's October Revolution. The son of a British father and Austrian mother, he grew up in Vienna and Berlin before moving to England. His name ("it is more systematically mis-spelt than any other") seems to be a corruption of "Obstbaum" or "fruit tree".

His political creed is the product of his (non-religious) Jewish descent and of a day in 1933 when, walking home from school in Berlin with his sister, he learned that Hitler had come to power.

Age of Extremes is elegantly written, a synthesis stuffed with supporting fact, a dazzling survey taking in everything from particle physics to post-modernist art, from collective farms to supermarket check-outs.

It sees the century as a trip-tch. The first panel depicts a 32-year-long barbaric war punctuated by a slump. The second shows a Golden Age, a 30-year world economic boom engineered out of the preceding catastrophe and guaranteed by nuclear stalemate, a period when human society was utterly transformed.

In the third, all is confusion - a landslide of technological

advance accompanied by social decay, and the emergence of global forces (financial, demographic, environmental) which democratic governments seem powerless to manage or control.

Hobsbawm is an historian of international repute, translated and read widely outside his own land. At home, he is better known for his "semi-professional" work as a political analyst and his status as guru to the British left wing. His views hindered his promotion at Cambridge, where he was a fellow of King's, and he had his first book turned down on grounds of bias.

I met the gaunt intellectual in his study at Hampstead, north London, a room betraying the eclectic mind of a man who collects Moghul miniatures and is also a jazz critic (writing under the name Fran-

Eric Hobsbawm has broken a vow and tackled the history of his era

cis Newton). He discussed eloquently on the uses of history in our dangerously forgetful age, and the abuses of history by the separatists and nationalists who proliferate in the new world disorder.

But now that the academic historian and veteran Marxist have fused, as it were, the first question readers will ask is why they should trust his perspective on the century. "I stuck to the 19th century for a long time," Hobsbawm said, "because for a Marxist - and certainly for a communist - writing anything to do with the Soviet Union after 1917 could not conceivably be done without saying things you knew weren't true. At least, I could have done so as a communist but I would have got into a lot more trouble. So I would say, keep your nose out of it." He laughed, turgidly.

Why do you say you would have had to write things which weren't true?

"Well, the official line, as it were, on the Russian revolution was either that Trotsky didn't exist or that he was a member of the British secret

service from 1918. There's no way you can do any history that way."

How could you belong to a party which promulgated untruths when you knew them to be untruths?

"Well," he sighed, with the air of one confronting the inevitable. "Do you think you choose your parties purely by the official statements made by your leaders? These official statements shouldn't actually be binding on other people. But..."

You mean you choose your party as you might choose your church?

"You choose a package deal. Bits of the package aren't what you would have chosen."

Was being a communist for you a rational, or an emotional thing?

"Oh, no. I mean from the start it was obviously an emotional and profoundly felt conviction. You felt that the world was going to hell and you felt that world revolution would be the only way of saving it. And you may understand that if you were a teenager in Berlin during the rise of Hitler."

"It wasn't a rational decision to begin with. But it gave me an initial interest in history. One of my schoolmasters said: 'You call yourself a communist, but evidently you don't know anything about it. Kindly go to the school library and read up the communist manifesto and one or two other things and see what you come back with.'"

"From that stage, it became much more rational. But the commitment wasn't rational. The commitment was... I would almost say religious."

I said: A man will ignore things he knows to be lies for the sake of loyalty, or for the sake of, if you like, a larger good. But I mean everyone does this to some extent if they choose a cause or have a cause chosen for them. All my friends working in Bletchley (the code-breaking station in England in the second world war) kept telling me, "even though they knew stuff was being said that was not so."

Did you feel - do you feel - a conflict between your professional life and your political adherence, which involved



Linda van der Meer

swallowing a certain amount of rubbish?

"I certainly felt there was a conflict, yes. I did my level best never to actually write stuff myself which I didn't believe in and which spoke lies. There was a conflict, but it didn't affect the things that I wrote about."

"Incidentally, if I may say so, none of this fooled the Russians. Not a single one of my books was ever published in Russia in the Soviet period. Not a single one... huh?" He gave an interrogatory grunt. "In Hungary, yes. In Slovenia, yes. You were supposed to write a straightforward line, and whatever I said did not fit in."

What do you call yourself today, politically?

"I'm on the left and I continue to be profoundly sceptical of capitalism as a system for solving the problems of the world."

I asked what it meant to be a "Marxist historian".

Hobsbawm said he believed the best way to tackle history was still to study the way human beings collectively earn their living, to understand the social structures and institutions they develop. "Indeed, far more people today,

historians of any kind, use this method without being aware of it than did when I was a student."

It doesn't imply a bias that will infect your writing of history?

"It needn't particularly. In the past, a lot of Marxists were also committed to particular, demanding political organisations. I don't think it's an essential part of the exercise. It would be theoretically possible to make a Marxist analysis and not even be socialist."

Are all historians to be found somewhere on the political spectrum?

"Yes. All serious ones. Unless you are simply a chronicler or compiler of dictionaries."

So the truth will always be to some extent a function of feelings?

"It would be affected by this, yes. And, to this extent, it is impossible to say that what we are coming up with is The Truth."

"It's perfectly possible, for instance, that a historian in 50 years' time will look back and see that the dichotomy under which we have all been operating - a capitalist or a socialist type of economy - is simply a function of the war of religion

waged in the 20th century and that it would make at least as much sense to distinguish four, five or six different types."

Truths and facts are not the same thing?

"Truths and facts are not the same thing. I think it is absolutely essential that historians should not go against what can be proved or disproved by evidence. The point is, there are limits to evidence. Either Elvis Presley is dead or he is not... what?"

Our own concepts and the way of putting them together don't have the same validity as the facts themselves, the verifiable or falsifiable data. It depends on the questions we

ask. Nonetheless - and there is today an enormous consensus among professional historians - one must be against the kind of post-modernist relativism that is going around various parts of the literary and social sciences.

"If there is fiction in history, it is a fiction which is based on fact. It is, if you like, art made up of *objets trouvés*, but the *objets* have got to be real objects and not inventions."

Hobsbawm has said that most of his conscious life has been devoted to a hope which, plainly, has been disappointed and to a cause which, plainly, has failed. Talking about his book in a lecture at the Univer-

sity of London, where he is emeritus professor of economic and social history, he said: "There is nothing which can sharpen the historian's mind like defeat."

He went on: "As the century ends, the world is fuller of defeated thinkers wearing a very wide variety of ideological badges than of triumphant ones. Especially among those old enough to have long memories."

Hobsbawm has the memories, all right. He has certainly suffered the defeats. But if his foresight was poor - and whose was any better? - his hindsight, it must be said, is terrific.

One of the more intriguing problems confronted by any reporter is how to tackle a story that is complex to the point of incomprehensibility and arcane to the point of being meaningless.

How does one present a story, when one has never heard of the subject matter and one's readers have not the slightest interest in it?

So it was with last Sunday's tale from Madrid of the collapse of various detailed plans to launch an issue of the International Monetary Fund's special drawing rights (SDRs).

Many who had assembled in the Spanish capital for the IMF and World Bank annual meeting had dreaded the prospect of a row over SDRs. In the event, there was not only a row but a split.

The fact that this arcane matter was linked with something called a "systemic transformation facility" meant that many who had jumped the first fence refused the second. Some even left town as their editors could scarcely face filling their pages with such matters.

Those of us who stayed to cut our way through the unyielding rock of news suffered many defeats. Spanish journalists were in a particularly unfortunate position - they had nowhere to go because they could not ignore the news that was taking place on their doorstep.

As They Say in Europe

Trapped by special boring rights

El Mundo, heroically, ran the headline: "The Fund gets no agreement on the widening of its capital." Quite wrong, but a good try. In its hands, SDRs became "the nominal money of the IMF". *El País* called SDRs "credit commitments" - but a typographical error made it "credit commitments", which seemed quite interesting and very Castilian.

Elsewhere in Europe, opaque definitions ruled. For *Le Monde*, the phrase was "reserve money of the Fund", while *NRC-Handelsblad* of Rotterdam used the phrase "Monopoly money". The *Frankfurter Allgemeine Zeitung* dismissed SDRs, sniffily, as "money out of thin air".

So it was that Europe's top economic writers turned quickly from the tedious details of the row to a much more profitable field: who to blame for the ghastly debacle. The problem was eased because there were so many candidates.

The IMF's boss, Michel Cam-

dessus, had put up the original plan for SDR distribution, which had the firm support of developing countries. But the British and Americans cut the proposed amount in half and said it should go mostly to their friends in the old Soviet Union.

James Morgan recounts the horrors of an IMF conference

The Germans were grudging even about this. The French, however, like the idea of free money for everyone; it was not surprising that *Le Monde* blamed the G-7 and its "sin of pride" in refusing to compromise further.

So, in Germany, *Handelsblatt* made something of the typical French generosity with other people's money. The man from the Dutch *Handelsblad* thought

that weak leadership in both organisations had combined with the "new self-confidence of the developing countries". The *FAZ*, of course, blamed everybody. The *Neue Zürcher Zeitung* noted, happily, that there had been "no winners, only losers".

I blamed Spain. It provides a suitable stage for the theatre of disaster and, after all, the country has a proverb which runs: "A río revuelto ganancia de pescadores" - troubled waters are the fisherman's gain.

Troubled waters dominated. The press corps gloomily contemplated the recently privatised telephone system and was amazed to hear how much it had improved. Only the Italians felt at home, but even they admitted that the interface between Telecom Italia and Telefonica did provide some nasty surprises.

The trouble with Spain is that, barring bloodshed, revolution and civil war, not much happened there between

around 1770 and 1970. A whole epoch of development was missed. Thus, there is scarcely a hotel room which has a radio, although all have television sets.

Then there is the curious phenomenon of clocklessness. Northern Europe abounds with clock towers, cuckoo clocks or whatever. In France, there are few. In Spain, there are hi-tech digital items on streets but none in the hotel rooms. A jet-lagged colleague from New York rang reception in the early hours to say he wanted a clock. He was advised to tune into the French television channel where he would see the time 24 hours a day.

Then there was the television producer who also rang reception to ask how she should operate the air-conditioning. "Open the window," came the reply.

Spain is not at its best when it is trying to be a modern, sophisticated industrial state. Madrid still provides the best of old Spanish customs: marvellous, efficient bars and restaurants. Helpful, honest taxi drivers.

It also understands realities that others miss. A cartoon in *El País* on the IMF and Bank meetings asked: "If all goes well for the economy, what matters if it doesn't for the people in it?"

James Morgan is economics correspondent of the BBC World Service.

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